

SECTION I  
VALUE-AND-DISTRIBUTION

(A)

THE OBJECTS AND METHODS OF POLITICAL ECONOMY

[THIS is an inaugural lecture delivered in 1891 on the occasion of entering on the duties of Professor of Political Economy at the University of Oxford. The address naturally contains much that is special to the place and the occasion; but there may be some reflections of more general interest.]

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Many of those who have spoken on occasions similar to the present, have signalled their entrance on the work of a Professor by indicating the scope and method of the science professed. It was thus that my illustrious predecessor, Senior, in the introductory lecture on Political Economy which he delivered before the University of Oxford almost two-thirds of a century ago, described the provinces of theory and practice, and the wide and slippery interval by which they are separated. So Dieterici—a great name in the annals of statistics—in his inaugural address to the University of Berlin,<sup>1</sup> almost as long ago, showed the opposite errors of “mere philosophy and mere experience.” In fine, not to multiply authoritative instances, the present occupant of the chair of Political Economy at Cambridge,\* on his accession to that eminence, gave a memorable discourse on the present position of Economics. I follow these precedents in the choice of a subject; I cannot follow them in the originality of its treatment. *Difficile est proprie communia dicere*; I shall endeavour to appropriate to the present occasion reflections which others have made common property.

In this spirit, approaching first that part of our subject which authorities on method distinguish as abstract or theoretical, I

<sup>1</sup> *De viâ et ratione economiam politicam docendi*, Berlin, 1835.

\* Alfred Marshall.

submit that there is a certain congruity between the theory of political economy and the studies which are particularly characteristic of this university, the great Oxford school of *literæ humaniores*. For the ideal of demonstrative science which is obtained from the study in that school of the ancient philosophy and modern logic appears to be fulfilled in political economy alone, or chiefly among the studies of which man is the direct object. It is in economics only, when we have excepted the mathematical physics, that there is realised with some perfection that type of science to which Greek thought aspired, which Aristotle taught if he did not practise: the leading up to general principles and leading down to particular conclusions. The logical methods, which are studied in the School of *literæ humaniores* may be exemplified in political economy without going beyond the range of subjects conterminous to that school.

The demonstrative part of political economy, to which I am referring, seems rudimentary, when compared with mathematical physics. But though our trains of reasoning are short, they are not simple. Consider any of the problems which Ricardo delighted to put. A tax is imposed on manufactured commodities and the proceeds expended in a bounty on agricultural produce (or vice versa); how will different classes be affected? Or, take a question in which a characteristic difficulty of our science—the disturbing influence of interest and passion—becomes felt. What would be the effect of limiting the hours of labour upon any definite supposition as to the numbers and efficiency of the previously unemployed class? Such questions are much more difficult than they seem. It is here, as has been observed of the calculus of probabilities: the first appearances are generally fallacious. But, whereas that calculus is handled only by experts, we all, learned and unlearned, theorise about political economy. Abstract reasoning, far from having become obsolete, seems never to have swayed larger masses. How many hundreds of thousands of Continental Socialists have been bred on the Hegelian subtleties of Marx! It cannot be supposed that such mystic formulæ are altogether of the nature of incantations, sung by those who are preparing to use the knife. Reasons honestly urged can only be met by reason. The statesmen of the coming generation must be prepared to separate what is true from what may be misleading in answers, such as the following, which are given in influential quarters to one of the questions which I have proposed. To reduce the working hours, it is said, would materially increase wages, by providing work for many who are

now in enforced idleness; because new demands would be made for commodities, resulting in a large increase in production and cheapening of commodities. What is the portion of truth in the common belief that a reduction of the hours of work would raise wages generally merely by causing an increased demand for labour, and independently of more indirect effects?

It may be observed that correct theory on such subjects has a use beyond its immediate application to practice, a dialectic or controversial use. Those who appeal to theory shall go to that tribunal, even though it is not final. There is here a legitimate sort of *argumentum ad hominem*; for which it is not very easy to find a parallel among the older sciences. The state of speculation which still prevails with respect to industry might be illustrated by the science of war upon the following fanciful supposition. Suppose that the authorities of the War Office—or those aspiring to office—were to recommend rules of gunnery, formulæ for the flight of projectiles, based upon a theory of gravitation other than the Newtonian. The simplest method of meeting these proposals—and estimating the authority of those who made them—would be to present the true theory of motion *in vacuo*; though, of course, that theory requires to be modified by complicated corrections for the resistance of the air, before it will enable us to hit the mark in practice.

The grotesqueness of my illustration brings into view a peculiarity of our study: that in the race of the sciences we are as it were handicapped by having to start at a considerable distance behind the position of mere nescience. An effort is required to remove prejudices worse than ignorance; a great part of the career of our science has consisted in surmounting preliminary fallacies.

Now in overcoming these initial obstructions academic training is likely to be of great use. Philosophic culture is calculated to eradicate the weeds of fallacy which grow nowhere so rank as in our field. Indeed many of the difficulties which beset political economy are common to morals and metaphysics. There is a similar inability on the part of those who have been bred in different speculative systems to enter into each other's positions; there is the same vulgar contempt for all speculative systems in uncultivated minds. There is a similar plurality of plausible hypotheses—a sort of kaleidoscopic change of views, with the turn of the fashion in speculation. For example, just as in morals the theory which resolves virtue into self-interest really accounts for a great part of the phenomena and, leading to by

no means the worst sort of conduct, as Bishop Butler shows, has sometimes caused oblivion of an older and a higher theory; so in political economy the theory which explains value by utility—utility in the sense defined by Jevons—has so fascinated by no means the worst sort of economists, that they have almost forgotten, or at least degraded, the older, and in some respects more important theory which connects value with sacrifice and labour. There is ever a danger that, as we press on to seize new conceptions, we should lose the positions which have been already won. Hence the history of theory is particularly instructive in political economy as in philosophy. History and literature, dialectics, and all that the Greeks comprehensively called *words*, seem the best corrective of the narrow prejudices and deceptive associations which are sure to be contracted by those who have been confined to a single school or system. Words indeed in a literal sense require the attention of the economist as well as the philosopher. For there is in both spheres a danger of double-meaning terms; a demand for discriminating definition. In fact it has been seriously proposed by one of our greatest thinkers both in philosophy and political economy to revive the Platonic search for definition as a method of economic investigation. So cognate are the studies of political economy and *literæ humaniores*.

It must not however be understood that economics are altogether of the complexion of literature and the humanities. There is a certain affinity between the mathematical physics and the one social science which is largely occupied with measurable quantities. The nature of things which has involved the knowledge of physics in the mysteries of mathematics has not wished the way of cultivating economics to be altogether free from that difficulty.<sup>1</sup> In the memorable words of Malthus, "Many of the questions both in morals and politics seem to be of the nature of the problems *de maximis et minimis* in fluxions."<sup>2</sup> The differential calculus, the master-key of the physical sciences, unlocks the treasure-chamber of the pure theory of economics. I do not deny that the refinements of pure theory may be reached by the use of ordinary language, sufficient circumlocution being employed; the treasure-chamber has a key of its own, but it is a cumbrous one. Nor do I attribute to the mathematical picklock the intricacy of the wards which guard the more recondite treasures of the higher physics. On the contrary, there is

<sup>1</sup> "Deus ipse colendi Haud faciliom esso viam coluit."—VIRGIL, *Georgic* i.

<sup>2</sup> Bonar's *Malthus*, p. 225.

required but little strengthening and filing of the instruments which are in common use. The well-known economists who say that the cost of labour is a function of three variables and that demand and supply always tend to equilibrium<sup>1</sup> use terms which are but paraphrases of the mathematical language which is the mother-tongue of the calculus of *maxima and minima*. The advantage of employing that language might perhaps be compared to the advantage of studying the ancient philosophers in their native tongue. I do not mean that the mathematical method should form part of the curriculum, as we make Greek obligatory for the students of philosophy. But may we not hope that the higher path will sometimes be pursued by those candidates who offer *special subjects* for examination?

Still referring to the theoretical part of political economy, I come to the question: What is the use of abstract theory: the positive, as distinguished from the controversial use which I have indicated as extensive and important? I hope that in academic circles it may be allowable not to construe use narrowly. There still is room for the studies which the Greeks attributed to theoretical science, as distinguished from practical sagacity, which Aristotle<sup>2</sup> characterised as wonderful, and hard to be attained to, and sublime, but not immediately useful, not directly applied to the service of humanity. Of this character are the higher generalisations of economics, whether expressed in words or symbols, in the language of Ricardo or of Jevons. Such is the theory of the dependence of value upon cost, of the adjustment of remuneration to efforts and sacrifices; like the surface of the sea—a sluggish sea with viscous wave—slowly settling to equilibrium. Such is the theory of the extension of demand in the different directions of consumption to one and the same limit of satisfaction; like an imprisoned gas pressing equally at all points against its boundary. Such is the theory, less familiar and less easily imaged, which is formed by combining the conceptions of Jevons and of Ricardo,<sup>3</sup> and deducing the whole system of values and remunerations from the single simple principle that each individual seeks (subject to given conditions) simultaneously to maximise the pleasures of consumption and minimise the unpleasantness of production.

From these heights of speculation, as from a lofty mountain, may be obtained general views as to the directions in which

<sup>1</sup> Cf. Mill, *Principles*, Book II. ch. xv. p. 7; Book III. ch. iii. p. 2.

<sup>2</sup> *Ethics*, Book VI. chap. viii.

<sup>3</sup> Cf. Sidgwick, *Principles of Political Economy*, Book II. ch. ii.; Marshall, *Principles of Economics*, 2nd ed. pp. 544, *et passim*.

practice trends. Such a general direction has been afforded by the Ricardian theory of the rent of land. Such a general direction will probably be afforded by the theory of consumers' rent which is connected with the names of Marshall and Dupuit : from the view that members of a community have an interest in each others' expenditure; that regulations encouraging the consumption of much-manufactured commodities rather than rawer material are *prima facie* expedient; and that the success of a government work as a business undertaking is not the pecuniary measure of its advantage to the community.

But while we indulge these general views, we must ever remember that they are but distant. It is only at the heights that contemplation "reigns and revels." The descent to particulars is broken and treacherous; requiring caution, patience, attention to each step. Those who without regarding what is immediately before them have looked away to general views, have slipped.

It is worth while to consider why the path of applied economics is so slippery; and how it is possible to combine an enthusiastic admiration of theory with the coldest hesitation in practice. The explanation may be partly given in the words of a distinguished logician who has well and quaintly said that, if a malign spirit sought to annihilate the whole fabric of useful knowledge with the least effort and change, it would by no means be necessary that he should abrogate the laws of nature. The links of the chain of causation need not be corroded. Like effects shall still follow like causes; only like causes shall no longer occur in collocation. Every case is to be singular; every species, like the fabled Phœnix, to be unique. Now most of our practical problems have this character of singularity; every burning question is a Phœnix in the sense of being *sui generis*. We have laws almost as simple and majestic as that of gravitation, in particular those relating to value and distribution; but these laws do not afford middle axioms, such as the proposition that planets move in ellipses deduced from the law of gravitation. So dense is the resisting medium which obstructs the free movement of the market; and not only in general dense, but also variable from case to case. The impediments to free competition are different in the cases of the money market and the labour market; and not very easy in any case to be accurately estimated so as to allow of scientific prediction. Repeated experiments in exactly similar conditions, such as those by which a physicist obtains empirical laws for the resistance of the

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atmosphere to projectiles, are not available in the practice of political economy.

Often indeed the resisting medium is invisible as air, and its presence escapes attention. There occurs the difficulty of perceiving all the data which should be taken into account in our reasoning. For, as it has been said in a well-known essay by John Stuart Mill—one of those who have rendered it superfluous at the present day to discourse at length upon the method of political economy—"Against the danger of *overlooking* something, neither strength of understanding nor intellectual cultivation can be more than a very imperfect protection."

As an instance in which eminent theorists may have omitted a relevant circumstance may be taken the question whether it is possible for trade unionists by standing out for a higher than the market rate of wages to benefit themselves permanently without injuring other workmen. The negative answer which has sometimes been given omits the consideration that an increase of wages tends to increased efficiency, and increased efficiency to increase of the produce to be distributed among all the parties. There are those who attach much weight to this consideration. How much weight should be assigned to it is a question of a sort which often baffles the theorist: to determine the quantity, after you have assigned the quality or direction of an agency. The possibility that diminished hours of work will not cause a proportional diminution of work done may be instanced both as a material consideration which has often been left out of account by serious reasoners in old times; and one of which it is not easy to determine the force, as well as the direction.

Against "the danger of overlooking something," no remedy can be prescribed except to cultivate open-mindedness and candour, and above all sympathy, the absence of which has aggravated the most serious mistakes which have been committed in political economy. I refer particularly to errors relating to the remuneration of the wage-earning classes. Slips accidentally committed by the great theorists through carelessness or the passion for simplicity would probably have been far less serious, if those who interpreted political economy in the press and in parliament and applied it in the conduct of their business had entered more fully into the life and conditions, views and wants of the wage-earners. A generous caution would have softened the harsh tenets that the introduction of machinery could not ever be detrimental to workmen, that the Factory Acts were a mischievous interference with the liberty of the labour-market, that workmen could

not possibly benefit themselves by union. I would dwell longer on this all-important topic—the conduciveness of good-feeling to wisdom—if I were able to convey a feeling by a discourse. I can best express myself by pointing to an example which will be present to the memory of all here, the example of ardent sympathy perfecting reason which is afforded by the noble life of Toynbee.

To return to what I was saying about the difficulty—even when you have perceived a relevant consideration—of rightly appreciating its weight, there is a specific for this failing, namely statistics. Statistics are an indispensable part of the equipment of the modern publicist; and it is truer now than in Plato's time that he who has no regard for the art of counting will not be himself of much account. It will be my duty to take occasional opportunities of discoursing on the methods of statistics—the logic of numbers, in which fallacies unfortunately form a large chapter.

When we have done our best to correct our practical judgments, there will still be, as Mill says, “almost always room for a modest doubt as to our practical conclusions.” This modesty and this doubt are particularly appropriate in the case of the academic teacher, who, expected to know something about all the branches of his subject, cannot be expected to have examined many of them closely and at first hand. In the balance of judgment he may measure those weights which, so to speak, are most regularly shaped and admit of theoretical determination; but he must be ever prepared for the balance being turned by practical considerations of which he has not taken due account. Therefore he should “teach, not preach,” in the words of Professor Walker. Or, as it has been said by another eminent American economist, Professor Dunbar, a high authority on method (in a recent essay on the “Academic Study of Political Economy”)<sup>1</sup> the instructor is not concerned with “the propagation of his own views. He is interested in making his reasoning process clearly understood; but this is because of the value of the logical process itself.” Professor Dunbar specifies several good reasons why “the teacher's opinion upon some burning question of the day” should not be communicated to his pupils. There occurs to me as pertinent another case in which the teacher will not give an opinion—he may not have got one.

Having dilated at such length on theory and its application to

<sup>1</sup> *Quarterly Journal of Economics*, July, 1891.

practice, I am unable to devote proportionate attention to the advantages of historical studies. But you will not expect me to expatiate upon advantages which are known to most of you from personal experience. I will only advert to a secondary and less obvious benefit attending historical researches. To trace the affiliation of ideas in the progress of science is calculated to correct our estimates of authority: to reduce in general the extravagant regard which the youthful student is apt to entertain for contemporary leaders, and to assign due weight to real originality.

It is impossible to overrate the importance of the historical method; understanding it in the sense defined by one of those who have most ably recommended and practised it, Professor Ashley,<sup>1</sup> as "direct observation and generalisation from facts past or present." I do not pretend to determine with precision the parts played by theory and history in this sense; I would as soon attempt to solve the old dispute, whether nature or man does more in the production of wealth. As the producer of wealth will push his investment in the different agents of production up to a certain limit which has been called the "margin of profitableness"; so, in the manufacture of economic wisdom, each of us should expend his little fund of energy, partly on the fixed capital of the deductive *organon* and partly on the materials of historical experience. The margin of profitableness in the intellectual as in the external world will differ with the personality of individuals. No general rule is available, except that, like the cultivated Athenians,<sup>2</sup> we should eschew the invidious disparagement of each others' pursuits. I rejoice that such illiberal jealousy among the votaries of economic science is becoming as obsolete as the Battle of the Books. As it has been well said by one among us, Mr. Price, "The quarrel between the 'old' and 'new' economists seems to be giving way on all sides to a hearty desire to recognise good work wherever it is to be found, and to an honest endeavour to seek for grounds of agreement rather than reasons for difference."<sup>3</sup>

In this broad and liberal spirit our school of modern history has included political economy among its studies. In this spirit the teachers of both subjects will, I hope, cordially co-operate.

While referring to the historical side of political economy, I cannot but think of my immediate predecessor,\* whose brilliant

<sup>1</sup> Inaugural Address, University of Toronto.

<sup>2</sup> Pericles apud Thucydides.

<sup>3</sup> *Economic Journal*, No. 3, p. 509.

\* Thorold Rogers.

achievements have reflected lustre on this University; who not only extracted the crude ore of historical material from the dim and dusty mine of mediæval records, but also himself elaborated, purified, polished the precious mass for permanent use and solid ornament. Nor can I be unmindful of the first occupant of this chair, of Senior, who, while advancing the boundaries of the science at almost all its frontiers, was at the same time versed and active in affairs, and contributed to history by recording the opinions of the men who made history.

When I remember the distinguished publicists who have occupied this chair, I am conscious of the deficiencies of their successor. I can but promise that zeal in academic teaching will not be deficient. I venture also to indicate a more external advantage which is likely to conduce to the usefulness of my office. I allude to the opportunity of collecting contemporary opinions and events—as it were into a focus—which is afforded by the position of the editor of the journal which is the organ of the British Economic Association.\* In furthering the objects of that Association I hope for much assistance from my fellow-students in this University.

\* Now the Royal Economic Society.