

On the Philosophical Method of Political Economy

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Adam Smith called his famous treatise an inquiry into the nature and causes of the wealth of nations. Mr. Senior defines political economy as the science which treats of the nature, the production, and the distribution of wealth. The definition in Mr. Mill's 'Principles of Political Economy' is similar, though broader: 'Writers on political economy profess to teach or to investigate the nature of wealth and the laws of its production and distribution, including, directly or remotely, the operation of all the causes by which the condition of mankind, or of any society of human beings in respect to this universal object of desire, is made prosperous, or the reverse.'

These definitions sufficiently indicate the character of the problem of political economy, namely, to investigate the nature, the amount, and the distribution of wealth in human society, and the laws of co-existence and sequence discoverable in this class of social phenomena. The solution offered by the method hitherto chiefly followed by English economists known as the abstract, a priori, and deductive method may be briefly stated as follows: The nature of wealth is explained by defining it as comprising all things which are objects of human desire, limited in supply, and valuable in exchange. Of the causes governing its amount and distribution, the chief exposition is, that the desire of wealth naturally leads, where security and liberty exist, to labour, accumulation of capital, appropriation of land, separation of employments, commerce, and the use of money; whence a continual increase in the total stock of wealth, and its distribution in wages, profit, rent, and the prices of products, in proportion to the labour, sacrifice, amount of capital, and quantity and quality of land, contributed by each individual to production. It is added that, inasmuch as human fecundity tends to augment population in a geometrical ratio, while the productiveness of the soil is limited, the proportion of rent to wages and profit tends to increase in the progress of society.

This theory, it is here submitted, is illusory, as a solution of the problem. It throws, in the first place, hardly any light on the nature of wealth. There is a multitude of different kinds of wealth, differing widely in their economic effects. Land, houses, furniture, clothing, implements, arms, ornaments, animals, corn, wine, money, pictures, statues, books, are but a few of the different kinds of wealth; and of each kind there are various species. No inconsiderable part of the present wealth of the United Kingdom consists of intoxicating drink. Wealth, moreover, undergoes great changes in kind in different states of society, and one of the most important features of economical history is the evolution of new kinds, profoundly affecting the material as well as the moral condition of nations. The wealth of Rome under the Caesars differed from its wealth in the first age of the Republic, in quality as well as quantity; and there are essential differences, as well as resemblances and historical relations, between the constituents of mediaeval and modern wealth. Some of the fundamental distinctions between Oriental and European wealth have been vividly brought before us in the last few months. One of these is, that the movable wealth of rich men in the East consists chiefly of precious stones, gold and silver ornaments, and splendid apparel. An English writer long ago described a religious ceremony in Turkey, at which a prince of eleven years old 'was so overloaded with jewels, both on himself and his horse, that one might say that he carried the value of an empire about him.' That is to say, the wealth that might have made a territory prosperous, and been distributed in wages through many hundreds of families, was concentrated on the bodies of a child and a horse. The correspondent of the 'Times' recently remarked on the appearance of the officers of an Indian municipality: 'It would have rather astonished the members of an English town council to have seen these Punjabees in turbans of the finest tissue, gold-brocaded gowns and robes, with coils of emeralds, rubies, and pearls round their necks finer than any Lord Mayor's chain.' This allusion to the surviving finery of English official dress illustrates a change which has taken place since the French Revolution in the ordinary dress of men in Western Europe. Another description of a reception of native chiefs at Calcutta a few months ago seems to give indication of the beginning of a similar change in India. While one Maharajah, 'dressed in black satin and silver lace, wore a cap which was literally covered with diamonds, said to be worth £100,000,' and another was 'resplendent in a dress of mauve, embroidered with gold,' Holkar and Sir Salar Jung 'presented a striking contrast from the extreme simplicity of their attire.' It is no unimportant example of the mutation in the nature of wealth, in the progress of society, that diversities exist in Western Europe,

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in respect of splendour and costliness of apparel, between masculine and feminine wealth, which did not manifest themselves conspicuously before the present century. The accounts of the dresses of the princes and nobles of India, during the Prince's visit, read like one of the dresses of a number of great ladies at a London ball; but even in England the fashion of wearing silks, satins, velvets, diamonds, and jewels, was formerly not confined to one sex. There was a time when men 'wore a manor on their backs.' The remark of Addison in the 'Spectator' that one may observe that women in all ages have taken more pains than men to adorn the outside of their heads' is inaccurate. An Eastern prince still sometimes wears precious stones on his turban to the value of half a million; and probably no lady ever wore such a weight of diamonds as the Shah of Persia displayed in London. It is at least conceivable that the attire of an English lady may one day rival in simplicity and inexpensiveness that of a gentleman. The wealth of all but the stationary part of mankind of both sexes undergoes various changes in the nature as well as in the number of its constituents; and the differences and changes in the character of Eastern and Western, mediaeval and modern, masculine and feminine wealth, of which some indications have been given, ought surely to meet with investigation, as regards both cause and effect, in a true Science of Wealth. The definition already referred to, that wealth comprehends all things which possess exchangeable value, is a mere abstraction throwing no light on these differences and mutations, or on the laws of society and social evolution by which they are governed. It originated in opposition to the Mercantile theory, and amounts in fact to little more than a negation of the doctrine, erroneously imputed to the Mercantile School, that money only is wealth. What that school really taught was that money is the most durable and generally useful kind of movable wealth, and their chief error lay in the measures by which they sought artificially to increase its amount. Money really had acquired great additional usefulness by its substitution for barter and payments in kind, and by the extension of international trade; and money is one of the kinds of wealth the invention and variations of which form a most instructive chapter in economical history. Adam Smith, it should be observed, did not fall into the error of later antagonists to the Mercantile theory. His doctrine was that wealth consists chiefly, not in money, but in consumable commodities; in the necessaries, conveniences, and luxuries of life. Although he did not systematically investigate the subject, he has in several passages indicated important differences in the economic effects of different sorts of wealth, and pointed out some essential changes which have taken place in its component elements, in the progress of society.

Closely connected with the illusory exposition of the nature of wealth to which attention has been drawn is the doctrine of abstract political economy, that the mental principle which leads to its production and accumulation 'is the desire of wealth.' No other branch of philosophy is still so deeply tinged with the realism of the schools as economic science. A host of different things resemble each other in a single aspect, and a common name is given to them in reference to the single feature which they have in common. It is, properly speaking, only an indication of this common feature, but it puts their essential differences out of mind, and they come to be thought of in the lump as one sort of thing. The desire of wealth is a general name for a great variety of wants, desires, and sentiments, widely differing in their economical character and effect, undergoing fundamental changes in some respects, while preserving an historical continuity in others. Moralists have fallen into a similar error, though from an opposite point of view, and, in their horror of an abstraction, have denounced, under the common name of love of wealth, the love of life, health, cleanliness, decency, knowledge, and art, along with sensuality, avarice, and vanity. So all the needs, appetites, passions, tastes, aims, and ideas which the various things comprehended in the word 'wealth' satisfy, are lumped together in political economy as a principle of human nature, which is the source of industry and the moving principle of the economic world.(1) 'That every man desires to obtain additional wealth, with as little sacrifice as possible, is in political economy,' says Mr. Senior, 'what gravitation is in Physics, or the dictum de omni et nullo in Logic, the ultimate fact beyond which reasoning cannot go, and of which almost every other proposition is merely an illustration.' The division of labour, the process of exchange, and the intervention of money, have made abstract wealth or money appear to be the motive to production, and veiled the truth that the real motives are the wants and desires of consumers; the demands of consumers determining the commodities supplied by producers. After all the reproach cast on the Mercantile School, modern economists have themselves lapsed into the error they have imputed to it. If every man produced for himself what he desires to use or possess, it would be patent and palpable how diverse are the motives summed up in the phrase 'desire for wealth' motives which vary in different individuals, different classes, different nations, different sexes, and different states of society. Hunger and thirst were the first forms of the desire of wealth. A desire for cattle is its principal form at the next social stage. A desire for land comes into existence with agriculture; but the desire for land is itself a name for different feelings, alms, and associations, in different ages, countries, classes, and individuals,

producing at this day widely different effects in two countries so close to each other as England and France. Adam Smith's historical and inductive mind here again preserved him from the realistic error. He has even attempted to indicate the actual order in which the desires of wealth succeed one another in the progress of history ; and although his generalizations on this point are scanty and inaccurate, they ought to have suggested a fruitful line of investigation to his followers, and doubtless would have done so but for the dominion over their minds which the abstract method acquired. His illustrious successor, John Stuart Mill, has indeed made some instructive observations on the point in the Preliminary Remarks of his 'Principles of Political Economy,' but he had been brought up in the straitest sect of the abstract economists, and his method was formed before his mind was matured; so that there is no systematic application of historical and inductive investigation in his treatise, although it abounds in luminous suggestions, and corrections of the crude generalizations of the school in which he was taught. An investigation of the diverse and varying desires confounded in the phrase 'desire of wealth' would be requisite, were we even, with some of that school, to regard Political Economy as a mere theory of exchanges and value. For the value of commodities rises and falls with changes in the degree and direction of these desires. Both in England and France, the love of land, for example, raises its price out of proportion to the income it yields; but this may not always be, as it has not always been, the case; or, on the contrary, it may display itself hereafter in increased price. At this day it is a national passion in France, but felt only by a limited number in England. Works of art, again, undergo extraordinary variations in value with the currents of fashion and taste; and diamonds would lose almost all their value were the indifference towards them, already felt by one sex in this country, to extend to the other, and to become general throughout the world.

It is true that a love of accumulation or of property, an acquisitive propensity, a desire for wealth apart from its immediate or particular uses, is a principle of social growth of which the economist must take account. But this principle opens up another neglected chapter in the science of wealth, for the love of property, or of accumulation, takes very different concrete forms in different states of society. Were there no division of labour, it would take forms land, cattle, houses, furniture, clothing, jewels, &c. determined by the existing or anticipated wants of the accumulator himself, or his family. In the actual commercial world in which we live its forms are determined, either by the wants and demands of other consumers, or the accumulator's own desires, anticipations, and associations. The holder of a share in a mine may never see his investment, and may have no desire for the coal, iron, or silver it contains, yet the form of his accumulation is determined by the demand for these particular kinds of wealth on the part of surrounding society.

The questions we have been discussing are immediately connected with the conditions which govern the amount of wealth. The abstract theory on this subject is of the most fragmentary character. It exists only in the form of a few propositions and doctrines, such as that, under the influence of the desire of wealth, human energy and effort are constantly devoted to its acquisition; that its amount is largely augmented by the division of labour; that of the three great instruments of production, the supply of two labour and capital tends to increase, but that of the third land remains stationary, while its productiveness tends to decrease with the growth of population; that wealth is increased by productive and diminished by unproductive expenditure and consumption. The first of these propositions really throws as little light on the amount as on the nature of wealth. The desire for it is by no means necessarily an incentive to industry, and still less to abstinence. War, conquest, plunder, piracy, theft, fraud, are all modes of acquisition to which it leads. The robber baron in the reign of Stephen, and the merchant and the Jew whom he tortured, may have been influenced by the same motives. The prodigal son who wastes his substance in riotous living is influenced by the same motives the love of sport, sensual pleasure, luxury, and ostentatious display which impel many other men to strenuous exertion in business. Good cheer, meat, beer, and tobacco, are the chief inducements to labour with the majority of working men, and to beggary and crime with another part of the population. Unproductive expenditure and consumption, on the other hand, do not necessarily tend to diminish wealth. They are the ultimate incentives to all production, and without habits of considerable superfluous expenditure, as Mr. Senior himself has observed, a nation would be reduced to destitution. Moreover, the effect of expenditure on the amount of wealth depends on the direction which it takes, for example, whether of services and perishable commodities, or, on the contrary, of durable articles. Here, once more, Adam Smith opened the way to a line of investigation which abstract political economy afterwards closed. He observed that a man of fortune may spend his revenue, either in a profuse and sumptuous table, or in maintaining a great number of menial servants and a multitude of dogs and horses, or in fine clothes, or in jewels and baubles; or, again, in useful and ornamental buildings, furniture, books, statues, pictures. 'Were

two men of equal fortune to spend their revenue, the one chiefly in the one way, the other in the other, the former would, at the end of the period, be the richer man of the two: he would have a stock of goods of some kind or other. As the one mode of expense is more favourable than the other to the opulence of an individual, so is it likewise to that of a nation. The houses, the furniture, the clothing of the rich become useful to the inferior and middling ranks of the people.' Consumption and expenditure in abstract political economy have become misleading terms. Both have come to denote the using up and destruction of things, whereas expenditure properly denotes simply the purchase, and consumption simply the use, of the article in question. If the things purchased be of a durable kind, unproductive consumption so called may amount in reality to a form of accumulation. It was, in fact, one of the chief forms down to recent times. In the fifteenth century, and long afterwards, one of the chief modes of laying by for a man's wife and family was the purchase of plate, furniture, household stuff, and even clothing. Some modes of expenditure, although intended simply as such, may be actually productive, as in the case of articles which, like rare works of art, or lands for purposes of enjoyment and amusement, acquire increased value with time and the growth of surrounding wealth. Even a stock of wine in a private cellar may, on the death of the owner, prove to have been a good investment for his family. The main questions respecting the influence alike of the 'desire of wealth' and of expenditure and consumption are: To what kinds of wealth, what modes of acquisition, and what actual uses do they lead in different states of society, and under different institutions, and other surrounding conditions? To what laws of social evolution are they subject in the foregoing respects? On these points we learn nothing from abstract political economy. A distinguished English economist and man of science has lately admitted, in the following passage, the absolute necessity for a true theory of consumption: 'We, first of all, need a theory of the consumption of wealth. J. S. Mill, indeed, has given an opinion inconsistent with this. "Political economy," he says, "has nothing to do with, the consumption of wealth, further than as the consideration of it is inseparable from that of production, as from that of distribution. We know not of any laws of the consumption of wealth, as the subject of a distinct science; they can be no other than the laws of human enjoyment." But it is surely obvious that economics does rest upon the laws of human enjoyment, and that if those laws are developed by no other science, they must be developed by economists. We labour to produce with the sole object of consuming, and the kinds and amounts of goods produced must be determined with regard to what we want to consume. Every manufacturer knows and feels how closely he must anticipate the tastes and needs of his customers: his whole success depends upon it, and in like manner the theory of economics must begin with a correct theory of consumption.'⁽²⁾ No such theory, however, respecting the effect of consumption on either the nature or the amount of wealth, can be forthcoming without a study of the history and the entire structure of society, and the laws which they disclose.

But further, in order to form any approach to an adequate estimate of the influence of human desires on the amount of wealth, it must surely be evident that we need an investigation, not only of the motives and impulses which prompt to the acquisition of wealth, but also of those which withdraw men from its pursuit, or give other directions to their energies. What abstract political economy has to teach on this subject is stated by Mr. Mill in his *Essay on the Definition and Method of Political Economy*, and also in his *Logic*, as follows:--

'Political economy is concerned with man solely as a being who desires to possess wealth. It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonizing principles to the desire of wealth, namely, aversion to labour, and desire of the present enjoyment of earthly indulgences. These it takes to a certain extent into its calculation, because these do not merely, like other desires, occasionally conflict with the pursuit of wealth, but accompany it always as a drag or impediment, and are therefore inseparably mixed up in the consideration of it.' Abstraction has here clouded the reasoning of the most celebrated logician of the century. Had Mr. Mill looked to actual life, he must have at once perceived that among the strongest desires confounded in the abstract 'desire of wealth' are desires for the present enjoyment of luxuries; and that the aversion to labour itself has been one of the principal causes of inventions and improvements which abridge it. Frugality, as Adam Smith has observed, has never been a characteristic virtue of the inhabitants of England; commodities for immediate consumption and luxuries have always been the chief motives to exertion on the part of the bulk of the English population. The love of ease is the motive which has led to the production of a great part of household furniture, and is one of the chief sources of architecture.

'A great part of the machines,' says Adam Smith, 'made use of in those manufactures in which labour is most subdivided, were originally the inventions of common workmen, who naturally turned

their thoughts towards finding out easier and readier methods of performing it. . . . One of the greatest improvements (in the steam engine) was the discovery of a boy who wanted to save his own labour.' By what logical principle, moreover, can economists justify the admission of 'two antagonizing principles' into their theory while excluding or ignoring others? In fact, no economist has ever been able to limit his exposition in this manner. Mr. Mill, in his own 'Principles of Political Economy,' follows Adam Smith in including in his doctrine of the causes which govern the choice of occupations and the rates of wages and profits, many other motives, such as the love of distinction, of power, of rural life, of certain pursuits for their own sake, of our own country, the consequent indisposition to emigrate, &c.

The real defect of the treatment by economists of these other principles is, that it is superficial and unphilosophical; that no attempt has been made even to enumerate them adequately, much less to measure their relative force in different states of society; and that they are employed simply to prop up rude generalizations for which the authority of 'laws' is claimed. They serve, along with other conditions, to give some sort of support to saving clauses such as 'allowing for differences in the nature of different employments,' 'caeteris paribus,' 'in the absence of disturbing causes,' 'making allowance for friction' by which the 'law' that wages and profits tend to equality eludes scrutiny. Had the actual operation of the motives in question been investigated, it would have been seen to vary widely in different states of society, and under different conditions. The love of distinction or social position, for example, may either counteract the desires of wealth, or greatly add to their force as a motive to industry and accumulation. It may lead one man to make a fortune, another to spend it. At the head of the inquiry into the causes on which the amount of the wealth of nations depends is the problem, What are the conditions which direct the energies and determine the actual occupations and pursuits of mankind in different ages and countries? A theory surely cannot be said to interpret the laws regulating the amount of wealth which takes no account, for instance, either of the causes that make arms the occupation of the best part of the male population of Europe at this day, or, on the other hand, of those which determine the employments of women.

Enough has been said in proof that the abstract a priori and deductive method yields no explanation of the causes which regulate either the nature or the amount of wealth. With respect to distribution, it furnishes only a theory of exchange (or of wages, profits, prices, and rent), which will be hereafter examined. The point calling for immediate attention is, that such a theory, even if true, must be altogether inadequate to explain the distribution of wealth. One has but to think of the different partition of land in England and France, of the different partition of real and personal property in England, of the different partition of both between the two sexes, of the influence of the State, the Church, the Family, of marriage and succession, to see its utter inadequacy. Take land, for example. Sir Henry Maine has justly observed that exchange lies historically at the source of its present distribution in England to a greater extent than most modern writers on the subject seem aware. The purchase and sale of land was active, both in the Middle Ages and in the age of the Reformation; and the original root of the title of the existing holder, in a vast number of cases, is a purchase either in those ages or since. But it is only by historical investigation that we can 'mount up in this manner to purchase; and the present distribution of land, descending from such a source, is none the less the result of another set of causes, among which that great historical institution, the Family, which has never ceased to be 'one of the chief factors in the economy of human society, holds a principal place.

The truth is, that the whole economy of every nation, as regards the occupations and pursuits of both sexes, the nature, amount, distribution, and consumption of wealth, is the result of a long evolution, in which there has been both continuity and change, and of which the economical side is only a particular aspect or phase. And the laws of which it is the result must be sought in history and the general laws of society and social evolution.

The succession of the hunting, pastoral, agricultural, and commercial states is commonly referred to as an economic development; but it is, in fact, a social evolution, the economical side of which is indissolubly connected with its moral, intellectual, and political sides. To each of these successive states there is a corresponding moral and intellectual condition with a corresponding polity. With the changes from savage hunting life to that of the nomad tribe, thence to fixed habitations and the cultivation of the soil, and thence to the rise of trade and towns, there are changes in feelings, desires, morals, thought and knowledge, in domestic and civil relations, and in institutions and customs, which show themselves in the economic structure of the community, and the nature, amount, and distribution of its wealth.

The celebrated German economist, Wilhelm Roscher, has remarked that every economical system has a corresponding legal system as its background; but the more general proposition may be advanced that every successive phase of social progress presents inseparably connected phenomena to the observation of the economist, the jurist, the mental, the moral, and the political philosopher. The same institutions marriage, the Family, landed property, for example may be regarded from a moral, a legal, a political, or an economical point of view. Both an intellectual and a moral evolution is visible in the successive modes of satisfying human wants by hunting and cannibalism; by the domestication of animals, with slavery instead of the slaughter of captured enemies; by agriculture, with serfdom gradually superseding slavery; and by free industry and commerce, instead of conquest and piracy. And it may be affirmed that the means by which wealth is acquired in successive states of society are subject to regular laws of social evolution, as a whole, although only in the earlier stages is their operation easily traced. Slavery would exist in England at this day but for the co-operation of moral and political, with what are specially termed economical, causes. The successive evolution of the hunting, pastoral, agricultural and commercial states is intimately connected with 'the movement from status to contract,' to employ Sir Henry Maine's appropriate formula ; one which affords striking evidence of the indissoluble nature of the connexion between the moral, intellectual, legal, political and economical phases of social progress. Sir H. Maine has considered it chiefly in its legal aspects, but it is easily shown to involve the other aspects referred to. To that primitive state in which there are no individual rights, in which the legal position of every one law then appearing in the embryo form of usage is determined by blood, birth, and sex, there is a corresponding polity, that is to say, a rude tribal organization, not without analogy to that of a herd of wild animals; and there is a correlative economic structure, limiting individual possession to certain articles of personal use, recognising no property in land, making sex and age the sole basis of division of labour, and leading to no exchanges between individuals. The moral condition is of a corresponding type. Communism in women is one of its original features; another is an entire absence of the feeling of individual responsibility. Tribes and groups of kinsfolk collectively are responsible for offences.

The intellectual state is strictly analogous. There is no mental individuality, no originality, or invention; all think as well as act and live alike. The savage is a savage in his intellectual development and ideas, as in his morals, his institutions, and his economy. The movement from status to contract, on the other hand, evolves not only individual property from communal ownership, and rights based on individual agreement from the transactions of whole communities of families, but also individual responsibility and individuality of thought and invention. It is likewise inseparably connected with a political development, with the gradual growth of a central government, and the substitution of the control of the State for that of the family or kindred. Every institution relating to property, occupation and trade, evolved by this movement, is an economic as much as a legal phenomenon. Changes in the law of succession, the growth of the testamentary power, the alienability of land, its liability for debt, are economical, as well as juridical facts; they involve changes in the economical structure of society, and in the amount and distribution of wealth. And every successive intellectual discovery, every new employment of the mental energy, has its part in determining the economical condition of the nation. A priori political economy has sought to deduce the laws which govern the directions of human energies, the division of employments, the modes of production, and the nature, amount, and distribution of wealth, from an assumption respecting the course of conduct prompted by individual interest; but the conclusion which the study of society makes every day more irresistible is, that the germ from which the existing economy of every nation has been evolved is not the individual, still less the mere personification of an abstraction, but the primitive community a community one in blood, property, thought, moral responsibility, and manner of life; and that individual interest itself, and the desires, aims, and pursuits of every man and woman in the nation have been moulded by, and received their direction and form from, the history of that community.

Both the desires of which wealth of different kinds is the object, and those which compete with them, are in every nation the results of its historical career and state of civilization. What are called economical forces are not only connected, but identical, with forces which are also moral and intellectual. The desires which govern the production, accumulation, distribution, and consumption of wealth are passions, appetites, affections, moral and religious sentiments, family feelings, aesthetical tastes, and intellectual wants. The changes which Roman wealth underwent after the conquest of Asia Minor represent moral changes ; the new desires of wealth which became dominant were gluttony, sensuality, cruelty, and ostentation. These moral changes, again, were

inseparably connected with the political history of Rome, and they had intellectual aspects which the author of the 'Dialogus de Oratoribus' has vividly portrayed. Allusion was made in an earlier page to the passion for jewels which distinguishes the men of the East from the men of the West, and this form of the desire of wealth has sprung mainly from the absence for many ages of the conditions essential to general prosperity, economic progress, and the accumulation of wealth in really useful forms. Where insecurity has long prevailed, not only are those aims and distinctions which take the place, with the growth of civilization, of personal display, prevented from emerging, but a desire is generated for the kinds of wealth which contain great value in a durable and portable form, and are easily hidden, easily removed in flight, and nothing the worse for being buried for months or years. The wealth of England at this day, it should be observed, although dissimilar in some essential respects to that of Asia, ancient Rome, and mediaeval Europe, displays also features of resemblance, alike to oriental, to classical, and to mediaeval wealth for example, in architecture, both ecclesiastical and civil, in the structure of landed property and the associations surrounding it, and in the surviving passion in women for jewellery which are, in fact, historical features. Our wealth is historical wealth, has been made what it is by historical causes, and preserves visible traces of its history. How long a history lies behind the feelings with which land is regarded, and its price in the market, as well as behind its existing distribution! Our whole national economy is a historical structure, and in no other manner to be explained or accounted for.

Recent apologists for the a priori and abstract method of economic reasoning feel themselves constrained to confine its application to the most advanced stage of commercial society; they seem even prepared to concede its inapplicability to every country save England, and to confine it to the latest development of English economy. The position which they take up seems to be, that the social evolution, already referred to as a movement from status to contract, issues in an economy to which the assumptions and deductions of abstract theory respecting the tendencies of individual interest fit. In modern England, they say, there is such a commercial pursuit of gain, and such a consequent choice of occupations, as to effect a distribution of the produce of industry to which the doctrines of Ricardo respecting wages, profits, prices, and rents may be fairly applied. They thus abandon at once the claim formerly made on behalf of political economy to the character of a universal science founded on invariable laws of nature. 'Political Economy,' said Mr. Lowe only six years ago, 'belongs to no nation; it is of no country: it is founded on the attributes of the human mind, and no power can change it.' It is now restricted by Mr. Bagehot to 'a single kind of society a society of grown-up competitive commerce, such as we have in England.'⁽³⁾ The economic society which we behold in England, and which is the result of the social evolution referred to, is, however, one which displays on every side the influence of tradition, custom, law, political institutions, religion and moral sentiment; it is one in which the State, the Family, and even the Church, are powerful elements directly and indirectly, and in which the pursuits of individuals, the nature and value of different kinds of wealth, the structure of trades and professions, are incapable of explanation apart from history. It is one in which, as Mr. Bagehot himself has remarked, 'there are city families, and university and legal families families where a special kind of taste and knowledge. are passed on in each generation by tradition'; and in which the system even of banking and the money market is the product of a peculiar history. Not even looking exclusively to the purely commercial side of the English economical structure; not even as a mere analysis of 'business' or 'commerce,' in the narrowest sense, is the abstract theory which used to claim rank as a Science of Wealth able to hold its ground. It is, in fact, as inapplicable to the most advanced stage of commerce as to that primitive state of nature from which Ricardo deduced it by a process which deserves a high place in the history of fallacies, and which was not present to Mr. Mill's mind when arguing that 'no political economists pretend that the laws of wages, profits, values, prices, and the like, set down in their treatises would be strictly true, or many of them true at all, in the savage state.'⁽⁴⁾ The principal foundation of Ricardo's theory of value, prices, wages, and profits, is the assumption that 'in the early stage of society the exchangeable value of commodities depends almost exclusively on the comparative. quantity of labour expended on each. Among a nation of hunters, for example, it is natural that what is usually the produce of two days', or two hours', labour should be worth double of what is usually the produce of one day's or one hour's labour.'⁽⁵⁾ The minor premiss in his syllogism is the assumption that it is 'natural' that in a tribe of savages things should exchange in proportion to the labour required to produce them; the major premiss is, that what is natural in the earliest must be natural in the most advanced state of society. The minor involves a *petitio principii*, and one entirely at variance with fact, for savages work only by fits, and have no measures of labour and sacrifice. The produce of the chase is determined largely by chance. Such exchanges as take place are of the special products of different localities, and between groups or communities, not individuals. If any exchanges took place between individuals within the community, they would

obviously be governed, not by cost of production, but like the exchange between Esau and Jacob, by the urgency of the respective needs of the parties. The major premiss, on the other hand, involves the fallacy of undistributed middle, the two states of society being entirely dissimilar. Thrown into a form less unfavourable to Ricardo's conclusion than the one he has himself given to it, his argument is, that in a small and stationary community in which employments are few and simple, and every man knows all his neighbours' affairs, how much they make, how they make it, and can transfer himself to any more gainful employment than his own the values of commodities and the earnings of individuals depend on labour and sacrifice; and therefore, in a great commercial nation in which there is an infinite subdivision of labour, an immense and ever-increasing variety of 'occupations, incessant change in the modes of production and in the channels of trade, constant fluctuations in speculation, credit and values, and in which each man has enough to do to mind his own business wages, profits, and prices, and the distribution of the gains of production, are determined by the same principle, namely, the labour and sacrifice undergone by producers. It is the conclusion thus arrived at by Ricardo which Mr. Bagehot sets forth as the first fundamental assumption of abstract political economy, applied to advanced commercial society, though with an exception with respect to one sex which illustrates its essential weakness. 'The assumption,' he says, 'which I shall take is that which is perhaps oftener made in our economical reasonings than any other, namely, that labour (masculine labour, I mean) and capital circulate within the limits of a nation from employment to employment, leaving that in which the remuneration is smaller, and going to that in which it is greater. No assumption can be better founded, as respects such a country as England, in such an economical state as our present one.' It is an assumption equally ill-founded with respect to both the extremes of economical progress, the earliest and the most advanced; to the former, because there is no regular labour, no calculation of gain, and no exchange between individuals; to the second, because each of a vast multiplicity of occupations needs unremitting attention, and exchanges are infinitely numerous, and subject to perpetual variations in the conditions affecting them. Ricardo ignored both the homogeneousness of primitive, and the heterogeneousness of advanced, society; Mr. Bagehot ignores the infinite heterogeneousness of the latter. The assumption really made its only approach to truth in the intermediate economical stage to which Adam Smith expressly limited it, when he restricted it to well-known and long-established employments, in the same neighbourhood, undisturbed by speculation or other causes of fluctuation, and between which there is perfect facility of migration(6) -- in other words, to a small and stationary world of trade. Consider the complexity of the causes which, in the modern commercial world, affect the price of a single commodity, and judge of the possibility of estimating the relative profit to be made by the manufacture and sale of every article. The following passage, written by one of the most eminent living philosophers, with no reference to political economy, will enable the reader to form some conception of the demand which the abstract economic assumption makes on his faith: 'The extreme complexity of social actions, and the transcendent difficulty which hence arises, of counting on special results, will be still better seen if we enumerate the factors which determine one single phenomenon, the price of a commodity say cotton. A manufacturer of calicoes has to decide whether he will increase his stock of raw material, at its current price. Before doing this, he must ascertain, as well as he can, the following data: Whether the stocks of calicoes in the hands of manufacturers and wholesalers at home are large or small; whether by recent prices retailers have been led to lay in stocks or not; whether the colonial and foreign markets are glutted or otherwise; and what is now, and is likely to be, the production of calico by foreign manufacturers. Having formed some idea of the probable demand for calico, he has to ask what other manufacturers have done and are doing as buyers of cotton whether they have been waiting for the price to fall, or have been buying in anticipation of a rise. From cotton-brokers' circulars he has to judge what is the state of speculation at Liverpool whether the stocks there are large or small, and whether many or few cargoes are on their way. The stocks and prices at New Orleans and other cotton ports have also to be taken note of; and then there come questions respecting forthcoming crops in the States, in India, in Egypt, and elsewhere. Here are sufficiently numerous factors; but these are by no means all. The consumption of calico, and therefore the consumption of cotton, and the price, depend in part on the supplies and prices of other textile products. . . . Surely the factors are now all enumerated? By no means. There is the estimate of mercantile opinion. The views of buyers and sellers respecting future prices, never more than approximations to the truth, often diverge from it widely. . . . Nor has he got to the end 'of the matter when he has considered all these things. He has still to ask, what are the general mercantile conditions of the country, and what the immediate future of the money market will be, since the course of speculation in every commodity must be affected by the rate of discount. See, then, the enormous complication of causes which determine so simple a thing as the rise or fall of a farthing per pound in cotton some months hence.'(7) To admit the assumption on which the abstract doctrine of the equality of

profits rests and on which, again, the doctrine of indirect taxation is based one must be prepared to admit that men in business are able to make, and do make, similar calculations respecting every other commodity, and thus are enabled to estimate the relative profits of different businesses.

The only verification adduced in support of the assumption is, that capital and labour desert employments known to be comparatively unremunerative for those which are known to yield better returns. Even this proposition is far from being universally true, and, if it proved the conclusion, would prove that the migration of labour from Europe to America must long ago have equalized European and American wages. Mr. Mill, in stating the doctrine, has granted that individual profits depend, among other things, 'on the accidents of personal connexion, and even on chance,' adding, 'that equal capitals give equal profits, as a general maxim of trade, would be as false as that equal age or size gives equal bodily strength, or that equal reading or experience gives equal knowledge.' He supposed, however, that bankers and other dealers in money, by lending it to the more profitable trades, put the various employments of capital 'on such a footing as to hold out, not equal profits, but equal expectations of profit.' In like manner, Mr. Bagehot argues that 'the capital of the country is by the lending capitalists transmitted where it is most wanted.' If individual profits vary to the extent which Mr. Mill admitted, since there are no means of knowing what individual profits really are, it is hard to imagine how bankers and bill brokers can gauge the existing profits of different trades, and still harder to imagine how they can foreknow them. How much they really know of the matter has been recently exemplified by the transactions of banks and bill brokers in the cases of Messrs. Overend and Gurney, and Messrs. Collie and Co.(8) Mr. Bagehot himself, writing on the money market and joint-stock banks, has observed: 'The old private banks in former times used to lend much to private individuals; the banker formed his judgment of the discretion, the sense, and the solvency of those to whom he lent. And when London was by comparison a small city, and when by comparison everyone stuck to his proper business, this practice might have been safe. But now that London is enormous, and that no one can watch anyone, such a trade would be disastrous; it would hardly be safe in a country town.'(9)

If there is one lesson which the history of trade and the money market in the last ten years ought to have brought home to us more clearly than another, it is that both the lending and the borrowing capitalists, both bankers and traders, are singularly ill-informed and short-sighted with respect even to the condition and prospects of their own business. The Deputy Governor of the Bank of England told a meeting of Turkish bondholders, a few months ago, that he had gone into these bonds largely himself, and had advised others to do so. A man of business, of considerable experience, had asked my own opinion, as an economist, of that very security, and afterwards complained that I had dissuaded him from a good investment.

Such is the stability of the main proposition of abstract political economy. The nature of the superstructure built on it may be judged from the doctrine that all special taxes on production fall, not on the producer, but on consumers, the former receiving the tax with 'average' profit on its advance; although, in fact, the producer may make no profit, may never sell the articles taxed, may even be driven from the trade and ruined by the impost, as the last load which breaks the back of the camel, for taxation has notoriously contributed to drive the smaller capitalists from several branches of business for example, distilling and brewing. I must leave it to physicists, geologists, and naturalists, to judge of the analogy for which Mr. Bagehot contends, of reasoning of this kind to the processes by which their sciences have been built up; nor may I attempt to pass judgment on the sufficiency of the method which Mr. Darwin, in particular, has followed. But when it is urged that the abstract economist, like Mr. Darwin, reasons deductively from 'one vera causa,'(10) the rejoinder is obvious that the 'desire of wealth,' which in abstract political economy occupies the place of gravitation in astronomy, and of natural selection in Mr. Darwin's theory, so far from being a vera causa, is an abstraction, confounding a great variety of different and heterogeneous motives, which have been mistaken for a single homogeneous force; and that Mr. Darwin's hypothesis was based on many previous inductions, and followed by minute and elaborate verification, for which the sole substitute in political economy has been an *ignoratio elenchi*. Mr. Caines, indeed, emphasizes in italics the proposition that 'the economist starts with a knowledge of ultimate causes;(11) adding: 'He is already, at the outset of his enterprise, in the position which the physicist only attains after ages of laborious research. If anybody doubts this, he has only to consider what the ultimate principles governing economic phenomena are.' First among these 'ultimate principles' he places 'the general desire for physical well-being, and for wealth as the means of obtaining it.' Yet the desire for physical well-being is so far from being identical with the desire of wealth, that they are often in direct antagonism to each other. And the title of such an abstraction as the desire for wealth

to rank as an ultimate principle has been, it is hoped, sufficiently refuted.

The abstract a priori method, it ought not to be overlooked, has almost entirely lost credit in Germany, and has never had undisputed possession of the field in either England or France. It is repudiated by M. de Laveleye, and by some of the most eminent economists in Italy. Malthus and Say, the two most eminent contemporaries of Ricardo, emphatically protested against it. Mr. J. S. Mill's treatise on the Principles of Political Economy often departs from it, and in his later writings he showed an increasing tendency to question its generalizations. Nor did the founders of political economy, either in England or France, intend to separate the laws of the economical world from the general laws of society. Their error' lay in the assumption of a simple harmonious and beneficent order of nature, in accordance with which human wants and propensities tend to the utmost amount of wealth, happiness, and good. Mercier de la Rivière, whom Adam Smith calls the best expositor of the doctrines of the Economistes, entitled his work 'L'Ordre Naturel et Essentiel des Sociétés Politiques'; and with Adam Smith himself political economy was part of a complete system of social philosophy, comprising also natural theology, moral philosophy, and jurisprudence. He regarded the economical structure of the world as the result of a social evolution, but the dominant idea of a natural order of things disposed him to dwell chiefly on 'the natural progress of opulence'; and led him to regard its actual progress as 'unnatural and retrograde' wherever it diverged from the imaginary natural order, in place of being the result of the real laws of nature at work. He followed, nevertheless, the historical, as well as the a priori, method, the latter being simply an offshoot of the eighteenth century theory of Natural Law; and the same language may be used in reference to political economy, which Sir H. Maine has employed in describing the influence of that theory on jurisprudence: 'It gave birth or intense stimulus to vices of mental habit all but universal, disdain of positive law, impatience of experience, and the preference of a priori to all other reasoning. . . . There is not much presumption in asserting that what has hitherto stood in the place of a science has, for the most part, been a set of guesses, the very guesses of the Roman lawyers.'(12)

Ricardo's fundamental assumption is a 'guess' respecting the natural principle regulating value and the distribution of wealth in the early stages of society, or in a state of nature; and he proceeds to determine by the same process the 'natural' course of wages, profits, and prices in advanced society. In proof that every improvement in the processes of manufacture which abridges labour is attended with a corresponding fall in the price of the product, his argument is: 'Suppose that, in the early stages of society, the bow and arrows of the hunter were of equal value and of equal durability with the canoe and implements of the fisherman, both being the produce of the same quantity of labour. Under such circumstances, the value of the deer, the produce of the hunter's day's labour, would be exactly equal to the value of the fish, the produce of the fisherman's day's labour. The comparative value of the fish and the game would be entirely regulated by the quantity of labour realized in each, whatever might be the quantity of production, or however high or low general wages or profits might be.' To prove that profits are equalized in the modern world by the flow of capital into the more profitable trades, he resorts, in like manner, to a 'guess': 'It is perhaps very difficult to trace the steps by which this change is effected: it is probably by a manufacturer not actually changing his employment, but only lessening the quantity of capital he has in that employment.' How far this conjecture was well founded appears in his own words in the same chapter. 'The present time appears to be one of the exceptions to the justice of this remark. The termination of the war has so deranged the division which before existed of employments in Europe, that every capitalist has not found his place in the new division which has now become necessary.'

Mr. Cairnes defines political economy as 'the science which traces the phenomena of the production and distribution of wealth up to their causes in the principles of human nature and the laws and events, physical, political, and social, of the external world.'(13) This process has been exactly reversed by the a priori and deductive method. The economist 'starts,' according to it, with the assumption of a 'knowledge of ultimate causes,' and deduces the phenomena from the causes so assumed. What has still to be done is to investigate the actual phenomena, and discover their ultimate causes in the laws of social evolution and national history. The bane of political economy has been the haste of its students to possess themselves of a complete and symmetrical system, solving all the problems before it with mathematical certainty and exactness. The very attempt shows an entire misconception of the nature of those problems, and of the means available for their solution. The phenomena of wealth may be made the subject of a special inquiry by a special set of inquirers, but the laws of coexistence and sequence by which they are governed must be sought in the great Science of Society, and by the methods which it holds out. And that science itself is still in its infancy. Auguste Comte's 'System of Positive Philosophy' (not his 'System of Positive Polity') is a

work of prodigious genius, yet it did but suggest and illustrate, it did not create, the science that could not be done by a single mind, nor in his time; still less did it work out the connexion between the economic and the other phases of the social evolution. If Political Economy, under that name, be not now bent to the task, it will speedily be taken out of the hands of its teachers by Sociology.

Inadequate as is the exposition contained in this Essay, it is submitted as establishing, on the one hand, that the abstract and a priori method yields no explanation of the laws determining either the nature, the amount, or the distribution of wealth; and, on the other hand, that the philosophical method must be historical, and must trace the connexion between the economical and the other phases of national history. As regards the nature of wealth, it has been shown that essential differences in its kinds and constituents, profoundly affecting the economical condition of mankind, manifest themselves at different stages of progress, and that their causes must be sought in the entire state of society physical, moral, intellectual, and civil. The amount of wealth has been proved to depend on all the conditions determining the direction and employments of human energies, as well as on the state of the arts of production, and the means of supply. And the distribution of wealth has been shown to be the result, not of exchange alone, but also of moral, religious, and family ideas and sentiments, and the whole history of the nation. The distribution effected by exchange itself demonstrably varies at different stages of social progress, and is by no means in accordance with the doctrines of a priori political economy. Every successive stage the hunting, the pastoral, the agricultural, the commercial stages, for example has an economy which is indissolubly connected with the physical, intellectual, moral, and civil development; and the economical condition of English society at this day is the outcome of the entire movement which has evolved the political constitution, the structure of the family, the forms of religion, the learned professions, the arts and sciences, the state of agriculture, manufactures, and commerce. The philosophical method of political economy must be one which expounds this evolution.

NOTES:

1. Many years ago I endeavoured to draw attention to the error of both economists and moralists on this subject, in an Essay on the Love of Money. reprinted at the beginning of the present volume.
2. The Theory of Political Economy. By William Stanley Jevons. 2nd ed., pp. 42, 43.
3. Economic Studies, p. 17
4. Auguste Comte and Positivism. By J. S. Mill, p. 51.
5. That this is really the foundation of the exchangeable value of all things, he continues, 'excepting those which cannot be increased by human industry, is a doctrine of the utmost importance in Political Economy.' Ricardo's Works, Ed. M'Culloch, p. 10.
6. In order that this equality may take place in the whole of the advantages and disadvantages of the different employments of labour and stock, three things are requisite, even where there is the most perfect freedom. First, the employments must be well known and long established in the neighbourhood; secondly, they must be in their ordinary or natural state; and thirdly, they must be the sole or principal employments of those who occupy them. Wealth, of Nations, Book i., c. 10.
7. The Study of Sociology. By Herbert Spencer, pp. 18 19.
8. On the failure of these firms a commercial writer observes: 'The nation entrusted most of its floating capital to the bill-brokers, and the public found that they had no check on their indiscretion. . . . Bankers took the bills as security because bill-brokers did, and hardly stopped to test the bills or to study their nature.' The Rationale of Market Fluctuations, pp. 52-3.
9. Lombard-street. By Walter Bagehot. 6th ed., p. 251.
10. Bagehot, Economic Studies, p. 13.
11. Logical Method, &c., p. 75.

12. Ancient Law, pp. 91-113.

13. Logical Method of Political Economy, 2nd ed., p. 57.

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