



The Historical Background in the XVIII and XIX Centuries

By Alvaro J. de Regil ^a

From time to time TJSGA will issue essays on topics relevant to The Living Wages North and South Initiative (TLWNSI). This paper is the second in the series “The Neo-Capitalist Assault” –a collection in development about Neoliberalism by its Executive Director.

In a narrative and analytic style, the essay describes the historical roots of modern economic thought with European Liberalism and its laissez faire ideology as a reaction to the era of monopolistic Mercantilism. The objective in the essay is to describe the development of liberal economic thought and establish the great differences between its philosophical postulates and its actual application. While a true spirit of freedom and the pursuit of the common good imbued economic liberalism, the actual application of the Industrial Revolution was of laissez faire for the owners of money and of dire exploitation for labour. The period covered goes from the time of the merchant empires, Adam Smith, the French Physiocrats and the development of XIX century classical economic thought to the brink of the Great War of 1914. The essay opens by stating that the birth of economic thought began with the enunciation of the concept of laissez faire, laissez-passer in its search for a model that would produce optimum results.

The birth of modern economic thought began at the dawn of modernization with the Industrial Revolution. Associated with the French encyclo-

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paedists, “The Physiocrats”, who liked to regard themselves as “The Economists”, were the first to enunciate the concept of *laissez faire, laissez-passer*. They constructed a model that aspired to attain optimum results, according to their rationale, except for the influence of the imperfections of a human being’s thinking, which could not clearly understand the natural order.

The Liberal Paradigm in Formation and the Idea of the Common Good. The initiation of liberalism

The Physiocrats represented a reaction to French “mercantilism” which can be compared today, in several aspects, with an extremely closed and archaic mixed economy; for it was controlled by (monarchical) absolutism and was tremendously inefficient, the result of the extravagances of the

monarchies of Louis XIV and Louis XV. Strangely enough, the Physiocrats pleaded for a revolution from above through a monarch enlightened about natural order relative to the economic well being of the nation. But it is very likely that their approach was heavily influenced by political considerations. For, although the absolutist monarchy was the perpetrator of the demise of welfare for the French nation-state, the Physiocrats were members of the court.¹ Thus, by alluding to “natural law”, they blamed tax abuses to wage foreign wars, mismanagement of public debt and court extravagances for hurting the economy. They contended that it was the land and not the accumulation of gold and silver that was the origin of human wealth. In this way, the formation of wealth was part of a natural order. And, thus, the Physiocrats constructed a theory, in Quesnay’s *Tableau Echonmique*, that an ideal economy is that which is left to the natural order, tending automatically to achieve maximum results except for the influences of mankind’s incomplete understanding of this order.

The Pursuit of Individual Self-Interest as the Best Way to Bring Prosperity to All Levels of Society

This is the origin of the *laissez faire* paradigm that advocated that national prosperity could only be attained by allowing for the personal liberty and prosperity of all. The Physiocrats François Quesnay (1694-1774), Jean de Gourney (1712-1759) and J. P. Dupont de Nemours (1739-1817), among others, were contemporaries of Adam Smith and had substantial influence on his philosophical work. The Scottish professor resided in Paris in 1765-1766, ten years before his “Wealth of Nations,” and became their close acquaintance (especially of Quesnay). Their philosophy coincided with Adam Smith’s, and he commended them for understanding both the real origin of wealth and for recognizing the need for a *laissez faire* environment for economies to prosper. Thus, when he initiated his work at Glasgow University, he was already influenced by the ideas of the French Physiocrats. Albeit, in his work, he differed from the Physiocrats’ thinking on the fact that it was human effort and not natural science that made commodities available to humankind.

Heavily influencing the Physiocrats was Richard Cantillon, an Irish philosopher who preceded them. Cantillon died in 1734, albeit his work was not published until 1755 in Paris. Although he

remained in obscurity until late into the XIX century, Cantillon also conceived in his *Essai sur la Nature du Commerce en Générale*, a market system kept in continuous adjustment by the activity of self-interested entrepreneurs.² And, like the Physiocrats and Adam Smith, he considered the entrepreneurs as the central element in a market system of competition where the landholders are the only participants of the system who are independent, whilst “all the other are dependent, either as entrepreneurs, or wage-earners, and that all the trade and circulation of the state is conducted through the intermediation of the entrepreneurs”.³

I consider it of key importance to relate these historical events. For in them we will find a conductive and consistent train of thinking in their ideas and in that of other contemporary philosophers involved in the initiation of political economics as a discipline. These events explain why they arrived at some conclusions as a result of their times; and how these have been reinterpreted today, out of their historical context, to support what I believe to be a different paradigm.

Adam Smith and the Pursuit of the Common Good

Adam Smith, in his “An Inquiry Into the Nature and Causes of the Wealth of Nations” of 1776, which was intended to be the capstone of his philosophical work, focuses on the growth of national wealth; and he meant of total national wealth, pervasively reaching all levels of society. For that, he strongly believed in freedom as the centre point in the achievement of a perfect and upwardly-mobile economy that resulted from a simple and free system of competition: *The establishment of perfect justice, of perfect liberty, and of perfect equality is the very simple secret which most effectually secures the highest degree of prosperity of all three classes.*⁴

However, his aim was not the accumulation of wealth per se, but the achievement of a perfect equilibrium of supply and demand that would achieve the maximum level of “general welfare”. For Smith, this is possible through the freedom to choose the employment of resources that would maximize the state of general national welfare.

This is the angular stone of his philosophy. Contrary to popular belief, which has erected him as the father of Capitalism, the driving force in his writing of "The Wealth of Nations" is not Capitalism as we know it today, but a Capitalism that is the instrument of "general welfare", just as he considered money the instrument of commerce. Thus, to Smith, money and commerce were merely the vehicles to obtain the general welfare and happiness of all members of society. We must remember that Adam Smith was a moral philosopher, who started teaching in 1751 by holding the Chair of Moral Philosophy at the University of Glasgow, where he published his Theory of Moral Sentiments. During his tenure, he became a philosopher of economic matters when he started inquiring about how greed and self-interest could benefit the common good.⁵

Indeed, it is absolutely clear that Adam Smith was extremely interested in the Common Good of society. Throughout his "Wealth of Nations," he passionately elaborated on all the different systems and elements of the economy, with the imprint of social justice embedded in his moral thought. Thus, Adam Smith was constantly making reference to a fair distribution of the nation's wealth among all members of civil society: *It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people. Every workman has a great quantity of his own work to dispose of beyond what he himself has occasion for; and every other workman being exactly in the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity, or, what comes to the same thing, for the price of a great quantity of theirs. He supplies them abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through all the different ranks of the society.*⁶

In this excerpt from Book 1 of his "Wealth of Nations", it is more than evident that Smith emphasizes the idea of a fair distribution of wealth. In the above excerpt he repeatedly mentions that all levels of society "to the lowest ranks of people" have a "great quantity" of their

own goods, "beyond what they have occasion for" to accommodate all "amply" and "abundantly" and "a general plenty diffuses through all". If he were to rise from the dead in these times, he would see how wrongly his teachings have been followed and would probably abrogate his constant reference of a fair accommodation of wealth and demand the need for the redistribution of wealth in a very unjust order; for we are in one of the worst periods of fulfilment of the Common Good.

Smith was profoundly preoccupied by the moral elements of the economy. Judging from how he referred to monopolies, Smith would have greatly opposed today's corporations, in general, and multinational corporations, in particular. For he believed that it was in their nature to try to maximize profits at the expense of labour and consumers. Throughout his book, he showed his repugnance for these organizations and saw them as only beneficial to their own kind. He regarded them as enemies of free competition. In fact, he considered the price set by monopolies as going against the principles of free competition, where then and only then, the natural price can exist. This point is clearly illustrative of the huge gap in concept between his ideas of free markets and competition and those of today. He wrote: *A monopoly granted either to an individual or to a trading company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market constantly understocked, by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate. The price of monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion, indeed, but for any considerable time together.*⁷

Indeed, he considered monopolies an obstacle to efficient managerial practice, that which is the result of a truly free economic environment: *Monopoly, besides, is a great enemy to good management, which can never be universally established but in consequence of that free and universal competition which forces everybody to have recourse to it for the sake of self-defence.*⁸ As for what he meant for natural price, it was

what he considered to be the fair level of compensation asked by all elements involved in the generation of a product: namely, labour, land, capital and raw materials. *When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price.*⁹

Smith, in effect, was correct in describing how the mechanics for the formation of wealth come about, but he was naive in his expectation of wealth permeating into all levels of society.

The Industrial Revolution and the Victorian Era, in Smith's own country, the wealthiest of all at the time, are vivid examples of how poorly the "trickle down" effect operated. He saw corporations and monopolies hampering this "natural" distribution of wealth; but he believed too much in the forces of nature, relative to the marketplace, and too little in the need for a not-too-invisible human hand to correct the abuses of the industrialists. Thus, unfortunately, Smith believed that there was a legitimate but very reduced role for the government. And, so, he left national welfare to the invisible hand of the marketplace to achieve a general welfare in, at the time, a primarily agricultural society.

Smith believed correctly that the division of labour (he was the first to specifically dissertate about it) was for the benefit of productivity and the increase of opulence; but, again, he believed that this opulence permeated itself to the lowest ranks of the people. However, with the advent of machines and industrial methods of production, which initiated the Industrial Revolution, the assumption of Smith's theories of a *laissez faire* environment to achieve general wealth came evidently into question. Since the introduction of machinery created shifts in wealth distribution, with the concentration of it in the owners of capital and the subsequent disenfranchisement of the labour force replaced by machinery, there was an obvious lack of welfare of all social classes but the industrialists, and Smith became aware of it. And, so, Smith despised this new trend of poverty created by the Industrial Revolution and the collusion of corporations and

monopolies, and he considered it to move in the opposite direction of his thought. *The liberal reward of labour, therefore, as it is the necessary effect, so it is the natural symptom of increasing national wealth. The scanty maintenance of the labouring poor, on the other hand, is the natural symptom that things are at a stand, and their starving condition that they are going fast backwards.*¹⁰ Still, Smith always referred to the welfare of all social classes as the result of free competition. However, he aimed at a perfect competition because he meant that which occurs only when there are so many sellers that no one single seller can influence price. No wonder Smith had a profound dislike for the motives of merchants and monopolists. He viewed them as a sort of guild of oppressive conspirators against the welfare of all society: *People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in conspiracy against public, or in some contrivance to raise prices.*¹¹ And, although he thought that the "invisible hand" of the marketplace led these same men, he saw monopolies, public or private, as the evils to be combated through perfect competition. If there is any doubt left about how wrong he thought of merchants and industrialists, the following excerpt makes it very clear of how low he thought of their corporations and monopolies: *The exclusive privilege of an incorporated trade necessarily restrains the competition, in the town where it is established, to those who are free of the trade...Corporations were established to keep up prices and consequently wages and profit. It is to prevent this reduction of price, and consequently of wages and profit, by restraining that free competition which would most certainly occasion it, that all corporations, and the greater part of corporation laws, have been established...In England, indeed, a charter from the king was likewise necessary. But this prerogative of the crown seems to have been reserved rather for extorting money from the subject than for the defence of the common liberty against such oppressive monopolies.*¹²

It is important to note, though, that in spite of such monopolies and corporations that were increasingly dotting the geography of Britain, the vast majority of the economy, at the time of Adam Smith, was still one of a myriad of individual

entrepreneurs, and it was still dominated by agriculture. Thus, Smith conceived perfect competition in the light of thousands and thousands of individual competitors that would always try to define the price of their commodities at the lowest possible level in order to sell them; and, yet, to be able to benefit as well, beyond what they personally “had occasion for” to fulfil their personal necessities. This was the kind of “opulence” that he was expecting to be generated by perfect competition and not one concentrated in a few monopolistic corporations.

The Classical School and the Principle of the Common Good

Certainly, Smith was indeed the father of economic theory, since he was the first one to build a system, enunciating the different variables that define the commercial activity of free societies and their role in the formation of wealth, albeit, with substantial influence from the French Physiocrats. In the next generation, his disciples and followers continued to work under the same line of thought, constituting what became known as the Classical School of Economics. Their most distinguishing characteristic was the need for a *laissez faire* environment in order for the economy to grow. But, as in the case of Smith, all of them also shared the view that the formation of wealth meant that of the general welfare. And, so, they referred to the pursuit of self-interest as the best way to benefit society in general.

Furthermore, their demand for the freedom to conduct the business of commerce was a direct attack on the era of mercantilism that had reigned in Europe for the previous two hundred years. Their economic liberalism was labelled that way as a reaction to the oppressive environment of mercantilism, as noted earlier. It was liberation from a restrictive regime that the European powers of the time had exerted for too long. Mercantilism was focused on nationalistic and restrictive policies, with high tariff barriers against imports and on the accumulation of gold and silver. Its most important principles were well illustrated in the nine rules of a mercantilist manifesto published in 1684 by the Austrian lawyer, Philipp Wilhelm Von Hornick:

- Every piece of land should be utilized for agriculture, mining, or manufacturing

- All raw materials must be used in domestic manufacturing, in order to sell them as part of finished goods which have a higher value
- The state must encourage a large working population
- The export of gold and silver must be prohibited whilst all domestic money be kept in use
- Importation of goods must be discouraged
- Imports should be exchanged for exports instead of paid for with gold or silver
- Imports should be restricted whenever possible to raw materials
- Gold and silver must be constantly sought after by seeking to sell a country’s surplus manufactures to other nations
- Importation of goods that are already supplied domestically in sufficient form must not be allowed¹³

Mercantilism was completely infused by materialistic gain. Justice and good deeds for society were of no importance whatsoever. And the accumulation of gold and silver, or money, and not material goods, was the measure of wealth. Mercantilism was a true partnership between the monarchies and the merchant capitalists. Jean Baptiste Colbert was possibly the most prominent of all mercantilists. Colbert was “The” economist for Louis XIV and protected the French nation-state with a series of rules and laws to control the guilds internally, the merchant companies of the East and West Indies, and established tariffs to control imports coming from the competing nation-states.

Mercantilism, in some degree, resembles a mixed economy composed of merchants who sold their goods internally as well as externally in their colonies, and, whenever possible, in other nation-states; and a group of royal factories devoted to the production of luxury goods for the monarchies and their courts. The kings often supported the enterprises of the merchants with extensive subsidies and all kinds of protections. Thus, the main feature of this class of merchant-

capitalists was their monopolistic and pampered privileges. A common scene was the incorporation of legal monopolies in the form of franchises and patents. For instance, a franchise would grant exclusive trading rights to a merchant company or a guild of merchants, such as the East India Company.¹⁴ And, consistent with their materialistic thought, labourers and workers received no consideration. Their view was that the worker must remain in dire poverty; namely, at the margin of subsistence. In their extreme of prejudice and amorality, mercantilists considered poverty to be a “therapeutic suffering,” for if labourers were given the opportunity, they would be lazy and resort to all sorts of vicious indulgences.

All of these events that defined these times of absolutism and complete disregard for social welfare clearly explain why there was such a strong reaction against mercantilism. This reaction, which was opposite in one hundred and eighty degrees to mercantilism, materialized into the era of liberalism or *laissez faire*. This movement, indeed, focused on changing all of what was considered wrong with mercantilism. Liberalism wanted to stop the partnership between monopolistic merchants and absolutist monarchical governments and give a real chance to as many as possible in the population. The staunchly protectionist, monopolistic and elitist nature of Mercantilism clearly explains why and how Liberalism wanted a diametrical change and was keenly preoccupied with the attainment of justice and welfare for society at large, especially the newly-formed middle classes. Economic Liberalism was centred on the idea of open markets as opposed to the protectionist barriers of Mercantilism. In this way, the *laissez faire* philosophy advocated the dismantling of barriers, both between and within competing nations, as well as the dismantling of any form of organizations that were active in the economy, such as traditional guilds or the new trade unions. This is why, by advocating in favour of thousands of individual entrepreneurs who were going about the pursuit of their self-interests, Liberalism was frequently regarded as the philosophy of the new emerging middle classes, where the small individual entrepreneurs were expected to reside.¹⁵

The essential *raison d'être* of the birth of liberal economic thought was, then, a rejection of rigid mercantilism, which had reigned for over two hundred years. Mercantilism was the direct and immediate point of reference for the pundits of *laissez faire* ideology. Liberalism was a reaction aimed at changing the status quo and at allowing individuals to pursue their self-benefit. To be sure, in every reaction to one extreme posture, such as mercantilism, it is easy to expect also some extremes. For instance, one of Smith's disciples, the French economist Jean Baptiste Say, took Smith's theories to, in my opinion, an extreme in his “A Treatise on Political Economy”, where he postulated a “law of the markets” or “Say's law”, which simply stated that supply always generates its own demand; hence, no overproduction could ever exist, and, thus, no restrictions to production should be imposed. This law continued to be upheld until Keynes completely discredited it in the 1930s.

But, what most of them had in common was the need to change the economy to better the welfare of the greater part of society, and their staunch opposition to guilds of corporations and monopolies that received special treatment, such as subsidies and exclusive markets, from the monarchical nation-states. They wanted to stop the privileges of the aristocracy and, essentially, democratize the times by demanding the right to individual wealth generation. It should be remembered that liberalism was a movement that ran parallel to the French Revolution and the independence of the United States. And, so, winds of freedom were blowing on both continents, with society decisively revolting against absolutism and its exclusive form of hard-core merchant-capitalism.

A Refreshment of Mercantilism

In light of these historical events and their scenarios, I find little resemblance between the original liberal economic theory of the eighteenth century and the neoliberal Capitalism at the threshold of the third millennia. The motives of today's neo-capitalist assault on society are a far cry from the motives of the founders of classical liberal economic theory. In fact, one can find more things in common between the mercantilist era and the neoliberal globalization of today, than between the latter and the original *laissez faire* ideology. The affinity between MNCs and

merchant companies begins with the promotion of oligopolies and sometimes, not too rarely, quasi-monopolies represented by multinational corporations and the merchant monopolies of the XVIII century's trading companies. By the same token, the overseas markets, especially those of Third World countries, resembled the colonies where the merchants enjoyed exclusive monopolies. This is why there has been much talk of a new colonialism, since the beginning of the post-war era, and, especially, since globalization and neoliberalism began to dominate the front stage and became buzzwords in the last ten years.

We can also see a parallel in the partnership between governments and companies. The governments of the most powerful nations protect their big corporations from any serious problems that could threaten their presence overseas. For the last years, the U.S and England have been shooting, sometimes daily, at Iraq's anti-air defence to maintain Saddam Hussein in check and protect their oil interests in Kuwait, which are managed by their partners, the private oil MNCs. The oil cartel of companies, which some have labelled "the seven sisters", is perhaps the best illustration of a partnership between the merchants and the nation-states of today, which best resembles the same relationship from the sixteenth to the eighteenth centuries between the British trading companies and the British empire, of which, the East Indian Trading Company is, perhaps, the best example. Lastly, and most importantly, is the total disregard for the faith of the poor during mercantilism, and the great disregard for the welfare of the MNCs' employees in their Third World countries' "possessions" and their communities at large at the present time. Undoubtedly, the trading nation-state empires of the eighteenth century's mercantilism are the "metropolises" of multinational corporations in today's globalization. Certainly, today's relationship between nation-states and their MNCs is not an overt situation. In most cases, it is a subtle situation where governments work on behalf of MNCs by passing legislation that would benefit the MNCs' interests, regardless of the effect on individual citizens, national or foreign. However, no doubt should exist that, in the case of threatening situations, the governments would overtly intervene, including the use of military force, to protect the MNCs, such as the

continuing bombing of Iraq in the case of the oil companies.

Consequently, liberalism and neoliberalism only coincide in a few terms and market conditions, but with very different objectives. Yes, they both had called for free markets and little government intervention in the economy. But, while the classical economists meant freedom from monopolistic merchants, in order for individuals to pursue their self-interest as the best medium to achieve the welfare of all ranks of society, the neo-capitalist assault wants free markets for the unrestrained reign of multinationals and money speculators, with total disregard for the demise of each markets' social fabric. We must not forget that a high moral concept of social welfare was ingrained in the founders of the classical economic school, whereas the accumulation and concentration of wealth, at any rate, among the privileged few of both the absolutist aristocracy and the neo-capitalist global economy was at the time, and is today, the prevailing moral standard. Indeed, not just Adam Smith was greatly preoccupied by the dire poverty of the majority of the population. All the key personalities of the classical period of economics, in their philosophical thinking, were searching for ways to achieve the Common Good. The European enlightenment produced philosophers that moved between the more spiritual and the more materialistic traits of rationalism. One philosopher, in particular, greatly influenced both the Physiocrats of France, Adam Smith and the other British philosophers who created the theory of liberal classical economics. The English philosopher, John Locke (1632-1704), was the first to build a system of political liberal theory. Locke wrote that the governments' main responsibility was to ensure the natural rights of its citizens. And Locke defined these natural rights of the individual as the rights to life, liberty, and property. Furthermore, Locke asserted that the enjoyment of these private rights, enshrined in the social contract, and the pursuit of happiness, would inevitably lead to the Common Good of all members of society.¹⁶ Clearly, liberalism focused on the pursuit of the Common Good through individual liberty.

James Mill, the father of John Stuart Mill, taught the deductive method of analysis to the economist David Ricardo, (a disciple of Smith)

whose work became the prototype of the classical school of economic philosophers, who undertook the objective of creating a classical theory of the economy with universal laws (since the theory pretended to hold an ultimate truth based on natural law). But, again, from the beginning, the logical process of their moral philosophy was aimed at creating the highest level of happiness for the greatest number of people; namely, individual and legislative behaviour should be to seek happiness for the greatest number of people as a society and as individuals. James Mill, David Ricardo and the social philosopher, Jeremy Bentham, were all members of the “Philosophical Radicals”, who advocated the moral principle of “utility”, a rationalistic theory. It judged philosophy based on its ability to improve human condition. It was based on the idea of self-interest, which David Hume and his friend Adam Smith believed to be the natural trait most dominant in human behaviour.

James Mill had begun to enunciate the utility theory based on the work of David Hume. However, Jeremy Bentham advanced it further, in another direction, formulating the moral theory of Utilitarianism. This theory advocated an artificial identity of interests as opposed to a natural one advocated by Smith and Hume and proposed legislation and social and religious sanctions that punished those who harmed others in their pursuit of their self-interest. Simply stated, Utilitarianism was the ultimate concept of self-interest. It proclaimed that the greatest happiness of the greatest number is the true measure of right or wrong. And, for its implementation, it considered the function of politics and the judiciary in changing the structures of society so as to induce self-interested individuals to a behaviour conducive to the public good through the artificial identification of interests.¹⁷

Although some, such as James Mill, took their ideas to the extreme of pursuing pleasure per se, Smith and these thinkers consistently coincided in that the aim should be to seek the Common Good. Later, John Stuart Mill, a most influential thinker during the classical period and beyond, specifically advocated a balanced bill of rights between capitalists and workers. Stuart Mill defended the *laissez-faire* paradigm only if the power of the industrialists was matched by the power of their employees’ trade unions. And he

endorsed the principle of the Utilitarians: the pursuit of happiness, as long as it was not confused with pleasure.¹⁸ Thus, he endorsed the higher intellectual source of happiness over the physical and material happiness: *It is better to be a human being dissatisfied than a pig satisfied; better to be a Socrates dissatisfied than a fool satisfied.*¹⁹

John Stuart Mill, Social Justice, and His Social Liberalism

John Stuart Mill was considered one of the most influential classical economists, for his Principles of Political Economy was used as an economics text for sixty years. Furthermore, he was also, perhaps, the most influential social and political thinker of the Victorian era, a time when rampant extreme Capitalism prevailed. In fact, Stuart Mill’s writings have remained influential to this day.

Indeed, if there is any doubt that classical economists did have a keen interest in the welfare of all ranks of society, John Stuart Mill was perhaps the most accurate in defining the dual nature of economic theory. This dichotomy in economic theory was the consequence of two laws: one that is bound by natural law, the laws of production; and one that is bound by human morals and human participation in economic activity, the laws of social distribution.²⁰ Or, like according to the theory of reflexivity, reflexive perceptions bind the social sciences as a result of human participation in the subject matter.²¹ John Stuart Mill, therefore, clearly recognized the dichotomy between (at the time) natural economic laws of production and the social laws of distribution. Thus, just as I asserted in the previous essay, he also affirmed that the welfare of society was a question of political will.

Mill believed that the economic laws of production of wealth are governed by natural laws and are unchangeable unlike the laws of distribution of wealth. *In so far as the economical condition of nations turns upon the state of physical knowledge, it is a subject for the physical sciences, and the arts founded on them. But in so far as the causes are moral or psychological, dependent on institutions and social relations, or on the principles of human nature, their investigation belongs not to physical, but to moral*

and social science, and is the object of what is called Political Economy.²² The laws of distribution of wealth, Mills insisted, are a matter of human institution solely. The things once there, mankind, individually or collectively, can do with them as they like. They can place them at the disposal of whomsoever they please, and on whatever terms. And the classical economist concluded: The distribution of wealth, therefore, depends on the laws and customs of society. The rules by which it is determined are what the opinions and feelings of the ruling portion of the community make them, and are very different in different ages and countries; and might be still more different, if mankind so chose.²³

Therefore, wealth distribution (and redistribution) is strictly subject to the political will of the centres of power. It is greatly ironic, however, that the more I study the classical school of *laissez faire* economics, the more evidence I find of a manipulation of its postulates and moral framework, in favour of a very different paradigm, the so-called neoliberal paradigm in which we are living now. A paradigm that resembles mercantilism much more than liberal economic theory, as its founding fathers expressed this theory over two hundred years ago. Evidently, as we shall see, the classical paradigm appears to have been taken out of context to support today's arguments in favour of neo-capitalist globalization.

Stuart Mill is regarded essentially as a social reformer. One of his major interests was to improve the plight of the growing poor of Victorian England. The classical economists were greatly influenced by Thomas Malthus' essay of 1798: "An Essay on the Principle of Population, As It Affects the Future Improvement of Society", which contrasted the geometric growth of population with the arithmetic growth of production. Thus, they believed that the economy would eventually reach a stationary phase with no further growth. However, in contrast with David Ricardo, who looked negatively on this event, Mill believed it to be a positive occurrence. So he wrote: *I cannot, therefore, regard the stationary state of capital and wealth with the unaffected aversion so generally manifested towards it by political economists of the old school [the immediately preceding classical]. I am inclined to believe that*

*it would be, on the whole, a very considerable improvement on our present condition.*²⁴ For him this was the time to make structural changes and pursue wealth redistribution. He remarks: *It is only in the backward countries of the world that increased production is still an important object: in those most advanced, what is economically needed is a better distribution...It is scarcely necessary to remark that a stationary condition of capital and population implies no stationary state of human improvement. There would be as much scope as ever for all kinds of mental culture, and moral and social progress; as much room for improving the Art of Living...*²⁵ He was also very adamant about the amorality of accumulating wealth beyond what is necessary to live a secure and very comfortable life. *I know not why it should be matter of congratulation that persons who are already richer than any one needs to be, should have doubled their means of consuming things which give little or no pleasure except as representative of wealth...*²⁶ He clearly advocated against the accumulation of wealth per se and despised greed and injustice. He specifically made a distinction between distribution of wealth and distribution of income. Income was every man's right to earn the product of his own industry, but wealth was something that should be exercised with moderation.

Clearly, Stuart Mill was an adamant social reformer. He advocated an egalitarian society with a large middle class and no extremes in both poverty and wealth. He also advocated limiting wealth acquired by bequest or inheritance. Thus, he advocated a better distribution of wealth by the joint effect of prudence and frugality, which, as he described it, would result in a society with the following elements: *a well-paid and affluent body of labourers; no enormous fortunes, except what were earned and accumulated under a single lifetime...*²⁷

Stuart Mill on the Means to Achieve Wealth Redistribution

For Stuart Mill the stationary economy was the best opportunity for human progress (*moral and social progress*). He regarded as the best human condition, in his book IV of "Principles" on the "Influence of the Progress of Society on Production and Distribution", *that in which, while no one is poor, no one desires to be richer, nor*

has any reason to fear being thrust back by the efforts of others to push themselves forward.²⁸ Thus, Stuart Mill disagreed with Adam Smith and other classical economists that a stationary state presumed a distressed condition of the mass of the people.²⁹

Stuart Mill was the last of the great classical economists and the bridge with the neoclassical period. As noted before, he shared with all his predecessors and contemporaries his support of *laissez faire* as well as the achievement of the Common Good as the ultimate goal of economic thought; but, unlike most other classical economists, he was vested on wealth redistribution. Thus, he proposed a number of measures to procure that aim.

The first measure was the containment of population growth once the economy had reached the stationary stage. He considered the stationary stage as the point of equilibrium between production and the amount of population. Thus, he saw little reason for desiring further population growth.³⁰

Another measure was, in spite of his firm belief in *laissez faire*, the need for government intervention. To that end, he sought three goals: aid to the destitute, incentives to seek work for the unemployed but able-bodied and government policy to alter income distribution, through rational taxation, into fair redistribution.³¹ Indeed, he very specifically defined a number of exceptions to the spirit of liberty where the government must intervene on behalf of the Common Good.

For Stuart Mill, one of the central elements of government intervention on behalf of wealth redistribution was a rationalized tax program that taxed on luxury and excesses while cancelling taxation of the poorest, both direct and indirectly.³² Concurrently he proposed incentives to work via a taxation policy. He supported the Poor Laws to protect the destitute but he sought the design of incentives for the able-bodied not to seek the alleviation offered to the destitute.³³

The last measure, and the most important one in Stuart Mill's pursuit of wealth redistribution, was also the most controversial. Stuart Mill reviewed his position on the wages-fund doctrine, a key

element in the classical theory of growth. As noted previously, all classical economists believed that the stationary state was inevitable and believed, in consequence, in the Malthusian principle of population, in the principle of diminishing returns in agriculture and in the wages-fund doctrine. These are the three elements in the growth theory. According to this theory, in an expanding economy accumulation of wealth (fund) generates a demand for labour, and as competition for labour increases, wages increase. However, as wages increase above the subsistence level, population increases and the law of diminishing returns takes effect; so accumulation of profits ceases, investment diminishes and labour diminishes until a stationary state equilibrium is produced. Albeit, classical economists believed, the stationary state can be delayed by technological progress but never avoided. The objective of this theory was to understand and explain the process of economic growth.³⁴ In this theory, the wages-fund doctrine enunciated that wages were determined in advance of a short-run production period, pondering the capitalist's expectations on the many variables affecting outcome, including productivity of labour, demand, past investment and past labour-capital ratios. Thus, the argument was that labour could not rise above what had previously been allocated and, therefore, the wages-fund was always, for every period of production, a fixed variable in which labour cost could not exceed the amount that would exactly deplete the fund.

Furthermore, the criteria for defining wages was based on the total acquired capacity of goods consumption by labour (similar to today's purchasing power parity or PPP).³⁵ In this way, as Stuart Mill explained, this level was always just above subsistence level; that is, the minimum wage that workers would accept to have children. Stuart Mill wrote in his "Principles" to this respect: *In all old countries – all countries in which the increase of population is in any degree checked by the difficulty of obtaining subsistence – the habitual money price of labour is that which will just enable labourers, one with another, to purchase commodities without which they either cannot or will not keep up the population at its customary rate of increase.*³⁶

The controversy arose when Stuart Mill retracted from his previous position on the wages-fund doctrine to declare that profits depend directly on the cost of labour and, therefore, capitalists can increase wages by diminishing their profit expectations. This recantation on his previous position, which was in line with the classical school, provoked much controversy; but it was very consistent with his keen interests in the promotion of wealth redistribution, and it was one of the three elements that he presented to this endeavour. Stuart Mill originally wrote a whole chapter on this issue in Book III of his "Principles": "Of Distribution, as Affected by Exchange". And later on, when he recanted on his position, possibly after he became sensitive to unions and labour demands, his new view was appended to his "Principles". However, since the first edition, he asserted that profits and wages vary in direct relationship and opposite direction. That is, that an increase in wages comes from profits. *The rate of profit and the cost of labour vary inversely as one another, and are joint effects of the same agencies of causes.*³⁷

Later on, when he amended his treatise of the wages-fund doctrine, he contended that the only limit to increasing wages was the need of employers to support their families. *Of course there is an impassable limit to the amount that can be so expended; it cannot exceed the aggregate means of the employing classes. It cannot come up to those means; for the employers have also to maintain themselves and their families. But short of this limit, it is not, in any sense of the word, a fixed amount.*³⁸ And he added a strikingly balanced thesis: *The real limit to the rise is the practical consideration, how much would ruin him or drive him to abandon the business; not the inexorable limits of the wages fund.*³⁹ Strikingly balanced, in my opinion, because his thought is at par with the thought of wages being defined by the level of subsistence that labourers are willing to take in order to maintain the rate of increase of population. In other words, if wages and profits vary inversely to one another and are joint effects of the same agencies of causes, then the minimum limits of each are those just above the level that would make labourers leave the job and capitalists drive out of the business; and not a previously determined fund to cover the cost of

labour, as the classical wages-fund theory claimed. Thus, in practical terms, employers can augment these funds by reducing their income. It is this ethos on distribution of wealth that explains Stuart Mill's assertion that the welfare of society was a question of political will. It is very likely that his strong sensitivity towards social welfare, embedded in deep humanistic spirit, made Stuart Mill see the fallacy of the wages-fund theory, which has since been discredited. The great importance of this thought has transcended to today's economic reality with respect to the distribution of revenues in business between labour's costs and profits (all other costs deducted). And, thus, today it is at the centre of the struggle for social justice, especially in Third World countries.

In summary, Stuart Mill was a clear defender of liberty but he also kept a vigilant eye on justice and equal opportunity in the distribution of wealth. He was a staunch defender of the Common Good and, thus, believed in exceptions to liberty. Rather than embracing a society of *libertus* and the survival of the fittest, that would have no regard for its fellow citizens, he envisioned a democratic freedom. He believed that all should have the opportunity to start at the same line and that government should intervene *a priori* for that purpose and then intervene *a posteriori* to balance the results. More than anything, he attempted to find a formula to attain economic growth intertwining *laissez faire* market philosophy with social justice. Most importantly, far from accepting the reality of his time, he was particularly more interested in eliminating poverty than in mitigating its burden. Stuart Mill was committed to the attainment of social justice by eliminating poverty through a process of wealth redistribution.

Between Adam Smith and John Stuart Mill, there were three key economists in the classical school: David Ricardo, Thomas Malthus and Nassau Senior. They all supported economic liberalism as the best way to procure the Common Good, as noted before, with varying shades in the approach. Thus, certainly their views were sometimes on opposite sides of the spectrum. For instance, Senior appears to be more traditional and comfortable with untrammelled Capitalism. Senior was central in the critique of the passing of legislation that banned the exploitation of

children, adolescents and women, legislation considered by reformers as a significant achievement in the pursuit of social justice. However, Senior asserted that these laws benefited some interest groups; namely, adult male workers, at the expense of others, the capitalist investors; showing special sensitivity to the concept of productivity and rates of return. He thought that this legislation would reduce profit margins on investment and, therefore, he opposed it.

Stuart Mill and most of his contemporaries believed that the ultimate goal was to attain the best environment for the achievement of the Common Good. Their differences were in the approaches to this objective. Many supported government intervention in order to procure the Common Good through self-interest. That is, many believed that a system of incentives and deterrents would generate the proper individual behaviour for the Common Good.

A champion of government intervention under this logic was Stuart Mill's friend, Sir Edwin Chadwick; a career bureaucrat involved in social reforms through the Poor Laws,⁴⁰ who believed in the need for strong government intervention and in centralization to insure that the self-interest of each individual person would procure the Common Good.⁴¹

Classical economists looked on the problems of the welfare of societies in such a way that economists today constantly trace back their steps to rethink their approaches relative to the problems that we foresee at the beginning of the new millennia. Of all, Stuart Mill relied most on the values of a representative democracy to procure an egalitarian state and the principle of equality as part of the individuals' self-interest. His legacy illustrates the basic principle of human solidarity above all. And his conviction, along with that of Smith, Ricardo, Malthus and most other classical economists, that the sole purpose of every democratic government, through economic policy, is the pursuit of the best state of general welfare of society, obviates the need to continue in this pursuit. It also obviates the drastic difference in vision between the classical economists of liberalism and the self-defined neoliberals of today, who so ingenuously make use of some of the postulates of the former in

defence of their self-vested interests, with no thought in common towards the pursuit of the general welfare of society.

Classic Economic Theory, Applied

While industrial growth and productivity progressed tremendously during the XIX century, social progress did not occur because of the way in which liberal economics, especially the wages-fund doctrine, was applied. During most of the XIX century in England, France and most of Western Europe, industrialization exploded, creating an unprecedented amount of wealth, but it was a complete failure in terms of social progress. The way in which the *laissez faire* theory was applied worsened the plight of the majority up until the end of the Victorian Era.

The views of some of the classical economists, especially those of John Stuart Mill, were profoundly shaped by their observations of the process of industrialization and economic progress. It was evident to him and others that wealth creation was being concentrated in a few hands at the expense of labour. In England, the cradle of *laissez faire*, the social situation of the working class was pathetic. The move from the country village to the new urban cities was worsening the welfare of the people. The *laissez faire* era that began at the end of the XVIII century generated a growing belt of low class boroughs, unhealthy and ugly, that did nothing to improve the situation for the poor, but was ideal for an untrammelled individualistic entrepreneurship that was obsessed with obtaining the greatest benefits in the shortest period of time possible; thus implanting the cheapest and most sordid version of the modern industrial state. The new individualistic entrepreneurs never considered the concept of an orderly urban development, of hygienic conditions and of some level of comfort. And the aristocracy, still living in a world apart from the new urban slums in the cities, did not consider the improvement of the conditions of the new labourer in the factories to be the government's business.

Surely there were no worse social conditions in any city than in the slums of London at the end of the XVIII century. The Speenhamland Law was a gimmick that enabled capitalists to avoid paying a living wage to their labourers, passing the responsibility to the parishes. This created a most

unfair situation, forcing the small independent neighbours of the parish to relieve the powerful landowner by paying, through the parish's taxes, a supplement to the peasant's wage, while the landowner would reap the maximum gain by impoverishing the peasant. The great disdain for the new labourer, removed from the country life to the life of the urban slum or the mines of the Industrial Revolution, insured that the new labourer would lack any type of social services or of leisure activities that would compensate the loss of the comforts and traditions of the countryside and doomed him to impoverishment.⁴² So much injustice and disdain provoked a series of revolts, like the "Luddites" Revolt of 1812, which organized labourers to destroy the machinery at the textile mills. This revolt exposed one obvious reality: that government was siding with the capitalists, even protecting them against the law. The "Luddites" demanded the application of the laws, some of them dating back to Elizabethan times, which regulated salaries and labour hours in an equitable way for both labourers and patrons. However, the government applied the law selectively, always siding with the factory owners. The state repressed any intent of organizing labour while giving free reign to the association of owners. In 1800, the Pitt Law banned the right to strike and to organize, and in 1813 Parliament revoked Elizabethan laws to cancel the government's obligation to assess a minimum wage. In spite of a law enacted in 1802 to protect child labour, children were systematically exploited, working over 12 hours a day, 7 days a week under conditions of virtual slavery.⁴³ Charles Dickens attested to their demise in great detail, and a similar situation was true of women.

This unfair situation, Trevelyan wrote, was not a question of *laissez faire*; it was a question of liberty for the capitalists and oppression for labour. The big names of classical economics, like Ricardo, were clearly on the side of labour on this question.⁴⁴ Social injustice was so bad, that after 1830 Britain entered into deep agitation. Exploitation of the working class was publicly denounced, and the government decided to investigate, consequently confirming the condition of lamentable misery to which the working class was being subjected. Thus, in 1833, social reforms began in parliament, limiting

the conditions of child labour; and, in 1844 and 1847, further legislation limited the hours for women and children. Soon after, 10 hours/day became the maximum day's work for all, but limited to the textile industry, and, again, capitalists found a way to bypass the law. It was not until 1912 when the 8-hour workday and one day of rest was passed.⁴⁵

The Struggle for Social Justice Begins

As a result of so much injustice up to 1830, a growing humanitarian sentiment arose in all of Britain and it became a great political force. In 1833, slavery was abolished in all the dominions of the United Kingdom of Great Britain, and many people, including liberals, began to advocate a more just social order. This was the time when utilitarianism began to have a heavy influence in politics with Jeremy Bentham, and later with Stuart Mill and his friend Edwin Chadwick. By 1847, there was a complete body of legislation of all industries to protect labour. It was the advancement of the sentiment of humanitarianism much more so than the advancement of mechanism that generated impressive progress with respect to all the previous stages.

Although there was sustained economic growth in Britain, there was no doubt that the gap between rich and poor was growing. During all of the XIX century, practical liberalism was constantly expanding. However, the immediate evidence of growing social injustice, previously described, triggered a reaction to moderate the *laissez faire* ethos, which in fact meant that there was never a complete *laissez faire* environment put in place. For there was always a constant struggle to curb it or advance it further.

The Irish famine of 1847, though produced by natural causes when the fungal blight *phytophthora infestans* decimated Ireland's potato crops for three subsequent years, was another example of the great disregard of government for the poor. At the time, Ireland was an integral part of the United Kingdom. Nonetheless, despite some emergency help to feed the people, there was no government commitment to protect the population. For many decades, conditions in the land had been rather unfair. Catholic Irishmen were banned from owning a piece of land until 1829, and Anglo-Irish landlords, (usually absentees from "back east"), maintained a harsh

policy of demanding high rents to Irish tenants on pain of immediately evicting them. When Prime Minister Peel abolished the Corn Law in 1846 (to lower the price of the grain), his peer in the Tory Party sacked him, and the Whig ministry “blindly” believed in no government intervention.⁴⁶ Thus, when the famine assailed the Irish population, no real protection was handed to a starving people. Thus, for instance, in the middle of the famine in 1847, in the district of Skirbreen, in County Cork, a dozen landlords took £50,000 in rent while children and adults were dying everywhere. This did not deter the landlords from exporting grain under guard to England, instead of using it to keep the population from starvation.⁴⁷

In France, a similar situation was prevalent. A new law in 1834 replaced the old Le Chapelier Law, which dissolved the old guilds and forbade any type of professional associations, which was even more restrictive. In this way, many workers were put in jail for trying to associate, while some were murdered in Lyon and Ruán. It was not until 1884 that unions were legally accepted, but the *laissez faire* philosophy also created an immediate class struggle. And, as early as 1813, measures were taken to forbid child employment in the mines and, the following year, Sundays and holidays were declared days of rest. In 1841, regulations for child labour were drafted, and in 1871 a complete set of rules was established. However, in the same way that the British industrialist bypassed these laws, the French also found loopholes to their application. It was not until 1919 that the 8-hour workday was made law.⁴⁸

In Germany, where the industrial revolution began last, unions were rendered legal in 1869. In Prussia, however, legislation to protect child labour began in 1839. But, again, these actions encountered great opposition from the capitalists who found a way to go around them for many years until Kaiser Wilhelm II called an international congress in 1890, which was the basis of the International Labour Organisation (OIT).⁴⁹

The evident plight of the majority of society, more shocking among the new industrial labourers removed from the countryside, created, beyond a

natural humanitarian sentiment, a more rational and intellectual opposition. Among the historicists (those who believed in historical stages of development), also referred to as the socialist-utopians, such as the Frenchmen Condorcet, Saint-Simon, Fourier, Cabet and Blanc, going beyond a feeling of humanitarianism they supported economic progress and industrialization in a way that conformed directly to the interests of the greatest majority of the population. Thus, they did not believe in unmanaged self-interest to naturally fulfil the welfare of all ranks of society.

The Swiss economist Sismonde, another historicist, also observed that the great increase in wealth generated by industrialization completely bypassed workers, and that unrestrained competition generated rivalries between capitalists and workers. Sismonde was very visionary for he foresaw the struggle of Marxism. He perceived that mechanization affected workers and small enterprises because only the big companies could afford the new technology, and this was driving all others out of business. He considered it unfair that unrestrained competition would expose workers to the insecurity and vagary of free trade. He considered immoral the Ricardian system that reduced the destiny of humanity to mere formulas and numbers. He coined the term “social economy”, to improve the situation of the “proletariat”, another term he coined. He and other thinkers sought a “halfway house”, that is, a middle of the road; a pre-Keynesian concept that conserved liberty but considered all. He considered it a deficiency of the classical school, besides the fact that its postulates were presented as an ultimate truth, that most observations were based on English economy. Therefore, he pointed out that each culture and its nature must be considered before defining the appropriate political economy for each nation. And that, since these theories were anchored on the study of man, human nature must be known, its history and conditions, in different places at a given time, comparing theory against reality.⁵⁰

The German economist Friedrich List also strongly believed in the progressive stages of development. In his *Nationalem System der Politischen Ökonomie*, he favoured free trade to speed up the process during the first stages

(barbaric, pastoral and agricultural) but considered protectionism and a sort of import substitution during the last two phases (agricultural-manufacturing and agricultural-manufacturing-commerce). Most importantly, he felt that, until the last stage of development could be reached, international competition could not exist on an equal footing, and he believed that the economic policies of the state should be the engine of development. List strongly opposed the absolutist (undemocratic) and cosmopolitan (globalising) tendencies of the classical economists. Like Sismonde, he criticized the incapacity of the classical economy to recognize the differences that exist in situations, conditions, cultures and degrees of development in different countries. He also recommended the industrialization of underdeveloped countries, even at an initial loss for investors, with the aim of generating long-term sustainable development with benefits for both labour and capital.⁵¹

A Parallel in Views. A Gap Between Theory and Practice

It is inspiring to observe that those who oppose the current trend of neoliberal Capitalism are not really re-inventing the wheel. During the XIX century, there were a growing number of philosophers, economists, historians and high-ranking bureaucrats who were staunchly opposed to the pragmatism with which classical economic theory was being used. Moreover, they were contesting the pitfalls of real Capitalism on the basis of very similar arguments used by the opponents of today. Their perception of the negative effects, many of them generated willingly and convincingly by the industrialists, are very similar to today's perceptions by objective observers: a growing gap between rich and poor; a growing elite of big companies created at the expense of small or individual entrepreneurs; the exploitation of labour, yesterday both domestically and in the imperial colonies, and today in both First and Third World countries. And, most of all, that the views of the industrialists are applied in a dogmatic, absolutist and, hence, undemocratic fashion.

It was clear then, as it is now, that there is a wide gap between liberal economic theory and its pragmatic application. It was clear then and now that governments were siding with the economic centres of power. In fact, they were, and

continue to be in close partnership, effectively constituting one sole social class in most instances. Thus, it should be clear that there was a manipulation then and now of the aims of classical economic theory. The founding fathers of British economic thought, throughout most of the XIX century, had in mind the pursuit of the general welfare of all ranks of society. Initially, they did not envision how their postulates would actually be applied. Moreover, when they had the opportunity to observe the plight of the majority of society, especially during the first half of the century, they reacted adversely and sided with the working class. Some, like John Stuart Mill, became a sort of socialist-economist in the best sense of the word. Other, more orthodox economists, such as Ricardo, also sided with the workers when there were obvious signs of dire exploitation and violation of the existing laws, as we have seen.

Almost from the inception of the industrial revolution, there were deep humanistic spirits. Robert Owen considered that the human character was acquired and inborn, and, thus, the vices of the poor were a result of their condition and not because they were born vicious. This was his reaction to the general attitude that the poor are poor as a result of their own sinful ways. He conducted a notorious experiment: he treated his workers humanely in his famous textile mills of New Lanark with great success. He demonstrated to all that providing the labour class with healthy and safe working conditions, fair wages, humane treatment, education and an increased general welfare of the labourers would result in increased productivity and general welfare for both sides; far from what could be expected of the traditional one-sided method. However, as in most cases of human history, evil and greed prevailed. Owen told the government, based on the hard factual proof of his own experience in the textile mills, that the path to progress was in applying his humane and rational approach to industry, ready to be used as a model in the entire kingdom and beyond. Nonetheless, the government was not keen on protecting labour. It closed its ears to Owen's arguments, "Make this a model in all the factories", Owen pleaded to the government, but, although many people went to see his experiment in the mills, they would not accept his reasons. Instead, Owen was removed by greedy venture capitalists

who were partners in the mills and opposed his views. Thus, he proposed government legislation to protect and guarantee workers a far fairer treatment. Nevertheless, it took a century before the “establishment” would accept that the working environment determines the behaviour of the labourers and that it is in the hands of management to control this environment for its own sake.⁵²

In France, a dynamic labour movement was emerging. Its effervescence, due to an overt state of misery, generated numerous acts of repression from the high *bourgeoisie* in 1848 and several times during the second half of the century, and it led labour to acquire a high level of self-consciousness as a class in struggle against Capitalism. The briefly-lived *Commune* of Paris of 1871 was the earliest example of a proletarian government and preceded the Second Socialist International founded in Paris in 1889 (following the First International in London of 1864 with Karl Marx as its leader).⁵³

Pierre Joseph Proudhon, an anarchist who always regarded himself as a proletarian, had a strong influence on the working class and in the formation of its unions. He wrote a book titled What is Property? that provoked great anxiety among the industrialists.⁵⁴ Proudhon believed that the price mechanism was unfair because it only supported the strong against the weak. Thus, he proclaimed, “Property is theft” and accepted the market system only if it offered an equal chance for everyone to benefit and pursue his own interests. In his *Ideé Generale de la Revolution*, Proudhon envisioned a future of nations without borders, central governments and state laws and supported the direct action of workers against the state.

Proudhon was not against private property per se, but rather, against its attributes, and he was most of all against monopolies. Although he initially had a relationship with Karl Marx, this view turned into one of the areas of hot contested disagreements with Marx, who, for one thing, advocated the complete abolition of private property. Proudhon’s logic, instead, was that the price mechanism only benefited the capitalists and inhibited labour to seek its own self-interest contrary to the liberal paradigm. Thus, he did

not believe that *laissez faire* self-interest was the best way to achieve general welfare because diffusion of market forces, including wealth distribution, did not occur. Proudhon’s deductions were strictly empirical. He had a powerful analytical mind, and he perceived, like Stuart Mill, Owen and many others, a clear dichotomy between classical liberal economic theory and its actual practice by the industrialists. Thus, he reacted through his own deductions to combat it. Proudhon supported liberty and free competition, but he sought to equalize the different forces of the market. Therefore, to this endeavour, he advocated the universalization of private property and the replacement of governments and hierarchies in favour of the mutualist organizations’ norm of commutative justice.⁵⁵ For this very reason he was considered an anarchist.

In Germany, the historicist socialist movement was also prevalent. As with most of continental Europe’s philosophical thought, the concept of community life was clearly dominant, in contrast with the individualistic perspective prevalent in Britain. Moreover, as the historicist socialists observed reality, they too became critical of the dichotomy between the theoretical paradigm and the real events. Some of them, such as Gustav Schmoller, rejected the liberal and historical theories all together, but whether they supported or not any kind of theory, they all agreed that the practical application of liberal economics was a far cry from its theoretical paradigm. The label put to many of them as “socialist utopians” is due, primarily, to their failure to articulate a logical rationale, a method based on their historical phases of progress philosophy, that would convince government. It is fair to say, however, that governments were regularly biased against labour and regularly sided with the industrialists, regardless of how convincing the arguments of these social reformers were.

It was, in part, the failure of the historicists and the intellect of Karl Marx that a far more radical position against the untrammelled Capitalism of the XIX century achieved a tremendous influence in the world at the end of the XIX century and during most of the XX century. The scientific materialism of Karl Marx and Friedrich Engels, inspired by the dialectic method of the German philosopher Friedrich Hegel, was able to present

a well-structured social process that inspired the labour movement in Europe to rise against Capitalism as we all know it. Nonetheless, it was, more than anything, the oppressive application of the liberal doctrine that created a social crisis in Europe, without which it is doubtful that the Marxist theory would have had much success.

The arrogance, with which the colonial powers of the XIX century conducted their empires in their metropolises and colonies, triggered a strong sentiment of class struggle in the working class. There was no longer the sentiment of belonging and community that the country people had before they were removed from their country villages during the Industrial Revolution. When they were peasants working for the landowners, they were used to knowing their employers. Certainly, the move from the country village to the urban slum was not necessarily worse, but the sentiment of disenfranchisement had a profound effect on their psyche. This was the seed of the class struggle that did not exist until the XIX century.

In Britain, the emigration to the cities and to the mining regions left behind a rural world with a well-defined and old social structure. In this way, the émigrés were conversely dumped into the slums where they were the new labourers and were completely abandoned. This made them “easy flammable material”. And although, often enough, their meals, clothing and wages were not as bad as what they had on the farms, and although they enjoyed more liberty, they usually regarded themselves as less well off. The beauty of the countryside, the traditions in community and a close relationship with the landowners were palliatives that enabled them to live and feel happy and have a sense of belonging in their poverty,⁵⁶ something that completely disappeared when they were uprooted.

This was the ferment of the class struggle. This was the origin of a need to organize and form unions. It was not simply to gain better conditions; it was a need to re-encounter their sentiment of belonging. In this way, this search, embedded in their psyche, they acquired their class-consciousness, which catapulted them to the social revolutions of the XIX and XX centuries. It certainly may be argued that human progress inevitably had to endure such drastic changes.

But it was the total disregard and inhumane treatment added on top of the workers’ traditional poverty that provoked this schism and the subsequent revolts.

Economic progress can be reached in different ways, and it was the one-sided way in which liberal economic theory was manipulated that sparked the class struggle. Different approaches bring different results. The class struggle of the XIX century, in the philosophic and academic arenas, was between supporters of classical economics, as practiced by the industrialists, and supporters of a balanced approach to human progress, which, as we have seen, included many classical economists. This was the struggle for social justice as a result of the evident exploitation of workers. Unfortunately, social progress has continued to struggle up to our times under the same basic scenario; namely, a struggle between the centres of power that want all the benefit and the rest of society, in both developed and developing countries, that wants its fair share of economic progress.

a Alvaro J. de Regil is Executive Director of The Jus Semper Global Alliance

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3 Richard Cantillon, [Essai sur la Nature du Commerce en Générale, chapter XIII](#)

4 Adam Smith, [An Inquiry Into the Nature and Causes of the Wealth of Nations](#), Edwin Cannan, from the fifth ed. (1776; New York: Random House, 1994) 726.

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24 *Ibid*, 748.

25 *Ibid*, 49-751

26 *Ibid*, 749

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36 John Stuart Mill, Principles of Political Economy, Reprint ed. (1987; New York: Augustus M. Kelley Publishers, 1848) 689.

37 *Ibid*, 693.

38 *Ibid*, 992.

39 *Ibid*, 993.

40 Laws that regulated the programs for relief and welfare payments in England from the 16th until the 20th century.

41 Robert B. Ekelund, Jr. and Robert F. Hébert, A History of Economic Theory and Method, Third ed. (New York: McGraw-Hill, 1990) 214.

42 George Macaulay Trevelyan, Historia Social de Inglaterra, Spanish-language edition of English Social History, ed. (1984; México, D.F.: Fondo de Cultura Económica, Longmans, Green & Co.1942) 482-496.

43 *Ibid*, 482-502.

44 George Macaulay Trevelyan, Historia Social de Inglaterra, Spanish-language edition of English Social History, ed. (1984; México, D.F.: Fondo de Cultura Económica, Longmans, Green & Co.1942) 502.

45 Carlos Alvear Acevedo, El Mundo Contemporáneo (México, D.F.: Editorial Jus, 1968) 39.

46 Norman Davies, Europe. A History (Oxford: Oxford University Press, 1996) 832.

47 *Ibid*, 833.

48 Carlos Alvear Acevedo, El Mundo Contemporáneo (México, D.F.: Editorial Jus, 1968) 40.

49 *Ibid*, 41

50 Robert B. Ekelund, Jr. and Robert F. Hébert, A History of Economic Theory and Method, Third ed. (New York: McGraw-Hill, 1990) 238-242.

51 *Ibid*, 241-243.

52 George Macaulay Trevelyan, Historia Social de Inglaterra, Spanish-language edition of English Social History, ed. (1984; México, D.F.: Fondo de Cultura Económica, Longmans, Green & Co.1942) 503.

53 George Duby and Robert Mandrou, Historia de la Civilización Francesa, Spanish-language edition of Histoire de la Civilisation Française, ed. (1966; México, D.F.: Fondo de Cultura Económica, Armand Colin, 1958) 472-479.

54 *ibid*, 434-435

55 Robert B. Ekelund, Jr. and Robert F. Hébert, A History of Economic Theory and Method, Third ed. (New York: McGraw-Hill, 1990) 247-250.

56 George Macaulay Trevelyan, Historia Social de Inglaterra, Spanish-language edition of English Social History, ed. (1984; México, D.F.: Fondo de Cultura Económica, Longmans, Green & Co.1942) 482-496.