believed that equality was liable to undermine liberty. As has been seen, Ostrogorski's argument led him down similar paths to Mill, though he perhaps wished to disguise the fact.

Chapter five

Veblen and Hobson

Two economic heretics

The rise of the large-scale industrialist within capitalist democracies was closely related to the emergence of more powerful central government bureaucracies. Thorstein Veblen and John Hobson both agreed that the key relationships were those between big business, the state and the people. Hobson argued that with support from the state, democratic forms could be strengthened in a way which would humanise capitalism. Veblen had a different view. In his opinion, the only hope was that capitalism would destroy itself and at the same time make the existing state redundant. Democracy would arise from the ashes.

John Dos Passos was an admirer of Veblen:

> At Carleton College young Veblen was considered a brilliant unsound eccentric; nobody could understand why a boy of such attainments wouldn't settle down to the business of the day, which was to buttress property and profits with anything usable in the debris of Christian ethics and eighteenth century economics that cluttered the minds of college professors, and to reinforce the sacred, already shaky edifice with the new strong girderwork of science Herbert Spencer was throwing up for the benefit of the bosses.
>
> People complained they never knew whether Veblen was joking or serious . . . .
>
> Even in Chicago as the brilliant young economist he lived pioneer fashion. [The valley farmers had always been scornful of outlanders' ways.] He kept his books in packing cases laid on their sides along the walls. His only extravagances were the Russian cigarettes he smoked and the red sash he sometimes sported. He was a man without small talk. When he lectured he put his cheek on his hand and mumbled out his long spiral sentences, reiterative like the eddas. His language was a mixture of mechanics' terms, scientific latinity, slang and Roget's Thesaurus. The other profs couldn't

imagine why the girls fell for him so.

(Dos Passos 1933: 97–100)

Thorstein Veblen was born in 1857 into a prosperous farming family which held a prominent position in Manitowoc County, Wisconsin. His parents had emigrated to the United States from Norway ten years previously. A precocious lad, his way of settling a dispute with a neighbour over a dog was to write 'anathemas in Greek on the neighbor's fence' (Veblen 1931: 192).

As an adult, he combined 'impenetrable personal reserve' with contempt for convention. Dr Veblen never used his title. Once, during an ocean voyage, a fellow passenger discovered his status and asked him what sort of a doctor he was: 'Well', he replied gravely, 'I am a horse doctor, but I would rather you wouldn't mention it, as I don't want it known' (193). The passion and acuteness of Veblen's critique of capitalism often recalled Karl Marx. In style, he sometimes anticipated Groucho.

Veblen arrived at the University of Chicago in 1891 and was appointed to a fellowship in economics the following year. He stayed in Chicago for fourteen years, his longest period of continuous academic employment. His free and easy disregard of convention regarding relations with women eventually made it difficult for him to stay there. He subsequently held posts for short periods of time at Stanford University, the University of Missouri and the New School for Social Research in New York.

During the First World War Veblen wrote some reports for the Food Administration and for President Wilson's inquiry (co-ordinated by Walter Lippman) into the terms of a possible peace settlement. In 1918 he began to write for *Dial*, a New York journal. His readers appreciated his critique of Wilsonian policies and his enthusiasm for the Bolshevik Revolution. However, Veblen and his readers soon lost interest in each other.

Despite these professional involvements, for most of his adult life Veblen with his 'wrinkles, . . . vandyke beard and yellow teeth' (Dos Passos 1933: 101) was a bit of a gypsy, something of a hermit, living in cellars and shacks. The result of these isolated months and years was a formidable collection of works: eleven books and over one hundred and fifty articles and reviews.

In *The Big Money*, published in 1933, four years after Veblen's death, John Dos Passos summarised, in his own distinctive prose, Veblen's intellectual legacy:

> he established a new diagram of a society dominated
> by monopoly capital,
> etched in irony
> the sabotage of production by business,
> the sabotage of life by blind need for money
> profits,
> pointed out the alternatives: a warlike society strangled by

> the bureaucracies of the monopolies forced by the law of diminishing returns to grind down more and more the common man for profits, or a new matter of fact commonsense society dominated by the needs of the men and women who did the work and the incredibly vast possibilities for peace and plenty offered by the progress of technology.
>
> (Dos Passos 1933: 101–2)

John Hobson was born a year later than Veblen, and survived until 1940. During his life he published even more than Veblen: over forty books – including a sympathetic study of Veblen (Hobson 1936) – and roughly the same number of articles, chapters, reviews and pamphlets. This remarkable productivity was in spite of (or, perhaps, because of) the fact that Hobson never became entrenched within the academic world, even to the small extent achieved by Veblen.

On the face of it, Hobson had a more promising start for a budding academic. He was born in Derby 'in the middle stratum of the middle class of a middle-sized industrial town in the Midlands' (Hobson 1938a: 15) Derby was Herbert Spencer's home town also. In fact, the young Hobson often used to meet Spencer walking into town with a local bank manager. Hobson knew the bank manager slightly but never exchanged a word with Spencer.

Hobson's father, who ran the local Liberal newspaper, sent him to Derby Grammar School and then on to Oxford. After leaving university with a disappointing lower second, Hobson tried a bit of sub-editing back in Derby, and then some schoolmastering in Faversham and Exeter. In 1887 he moved to London and got a job as a university extension lecturer. Two years later he published, jointly with A.F. Mummery – 'a business man [and] . . . great mountaineer' (30) – a book entitled *The Physiology of Industry* (1889). The authors argued that saving was not, as the classical economists had assumed, a key to national prosperity. On the contrary, excessive thrift was a major cause of the underemployment of labour and capital.

This line of argument was quite inconsistent with the tenets of political economy. The latter assumed capitalist production depended upon 'a constantly increasing provision of new capital and, therefore, . . . the willingness of an increasing number of persons to save and invest income which they might have spent in raising their standard of comfort and luxury'. By arguing that saving was not a virtue, Mumford and Hobson 'contravened the one claim which political economy had to ethical respectability' (32).

Hobson's punishment followed swiftly. He was barred from teaching economics by the London Extension Board. An invitation to give a series of lectures on economic subjects for the Charity Organisation Society

was suddenly withdrawn. Hobson had become an economic heretic. In the long run, one compensation for this miserable treatment by the establishment was that John Maynard Keynes later acknowledged the publication of the offending book as marking 'an epoch in economic thought' (Keynes 1973: 365). Although Hobson was offered posts in America, he never returned to academia. Like Veblen, he developed a dislike of the university world and an abiding interest in the sociology of knowledge.

Hobson married the daughter of a wealthy New Jersey lawyer, which must have helped financially. He also enjoyed some inherited wealth. As an independent writer, he became a central figure in the conflict-ridden circles of the New Liberals. Around the turn of the century men such as L.T. Hobhouse, Herbert Samuel, Graham Wallas and Ramsay MacDonald were trying to come to terms with the inadequacies of Manchester School economics and the increasing significance of collectivist politics. Hobson contributed to this work, not least as a member of the staff of the *Nation*, a journal he joined in 1907. A colleague, H.N. Brailsford, later described him in this period:

> Rather older than most of us around the table, Hobson looked the student he was, sparely and slightly built, rather tall and in his later years very frail . . . . When he spoke . . . it was usually to give a new turn to the discussion, often a rather startling and original turn. He generally spoke as he wrote, soberly weighing his words, but he would express himself at times with a blunt violence that was not wholly humorous. Under the balanced, objective manner of his books . . . there burned strong and deep feelings. What I recall most vividly of his part in our talks was the brilliance of his wit. We always knew when something good was coming. He raised his right eyebrow, and paused to indulge in a peculiar stammer, which one rarely noticed at other times, while he was giving his epigram the neatest possible shape. He had a formidable gift for irony and satire.
>
> (Brailsford 1948: 4)

Hobson and Veblen have evident similarities. The manners and ideas of each created a distance between the man and the society to which he belonged. They were as much rejecting as rejected. Veblen laughed off his doctorate. Hobson refused a peerage from Ramsay MacDonald in 1931. Each man used the distance created as a protective shield behind which he could cast a new model of capitalist democracy.

Reconstructing economic man

> The hedonistic conception of man is like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area but leave him intact. He is neither antecedent or consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant.
>
> (Veblen 1963: 52)

Veblen rejected utilitarian psychology and the ahistorical models of classical political economy. He adopted a view of human nature similar to the pragmatists': in his view, a human being was 'a coherent structure of propensities and habits which seeks realisation and expression in an unfolding activity' (52). Desires and inclinations were, in fact, a complex product of heredity, experience, tradition, convention and material possibilities.

Human habits and desires were aspects of an unfolding historical process. In the course of this process the economic interest shaped and was, to some extent, shaped by other human interests: 'aesthetic, sexual, humanitarian, devotional'. Veblen was keen to develop 'an evolutionary economics' based upon 'the theory of cultural growth as determined by the economic interest' (54–5).

Veblen was much closer to John Dewey than he was to Jeremy Bentham. However, he was not prepared to emulate Dewey's faith in professionals and educators as guardians of democratic values within an unequal society. Such guardians were liable to be subverted by the pecuniary interests and values of the business class. By contrast, Veblen believed the interests of democratic communities would be best served by the strong communal orientations and matter-of-fact scientific attitudes of skilled operatives at the heart of the new industrial order (see Smith 1988: 65–73).

Similarly, Veblen was much closer to Herbert Spencer than he was to Adam Smith. But, unlike Spencer, he did not believe that the waste and misery generated by competition were inevitable by-products of evolution. On the contrary, industrial evolution was changing mental habits and getting people used to thinking in terms of scientific fact and causal sequence. Armed with a more rational disposition, human communities would be able to reduce waste and misery.

Veblen was merciless in his attacks upon conventional economic and political morality, especially in America. The natural rights theory of property based upon the owner's input of labour was an outmoded relic of the handicraft era. Public opinion, shaped by the prejudices of small-town shopkeepers, continued to reflect this theory. In one of his last books, written after the First World War, Veblen commented that 'The

retail trade, and therefore in its degree the country town, have been the home ground of American culture and the actuating center of public affairs and public sentiment throughout the nineteenth century'. (1923: 151)

The post-war world was different. Veblen noted:

> it is now recognised, or at least acted on, that the salvation of twentieth-century democracy is best to be worked out by making the world safe for Big Business and then let Big Business take care of the interests of the retail trade and the country town, and much else.
>
> (Veblen 1923: 151–2)

Democracy was a sham. Writing in *Dial* immediately after the war, Veblen described 'democratic sovereignty' as 'a cloth to cover the nakedness of a government which does business for the kept classes' by consistently maintaining 'the rights of ownership and investment' (1969: 125).

The most convenient way to indicate the wide range of Veblen's critique of modern capitalism is to focus upon two of his books which encompass his views on culture, economics and the political sphere. They are *The Theory of the Leisure Class* (1970) and *The Theory of Business Enterprise* (1965).

Both these books were written during Veblen's long stay in Chicago. The first originally appeared in 1899, the second in 1904. It is likely that conditions in that rapidly growing industrial metropolis provided a large part of Veblen's background evidence. Chicago was the scene of dramatic demonstrations in favour of both labour and capital. It witnessed experiments in civilising both the masses and their masters. The Haymarket outrage in 1886, during a strike at the McCormick works, had strengthened middle-class anxieties about violence in the labour movement. The Columbian Exposition or World Fair seven years later had, by contrast, asserted the organising capacity and material power of American big business. The centrepiece was a magnificent fountain representing the Goddess of Liberty on a splendid vessel steered by Father Time.

Shortly afterwards, the Nonconformist conscience pulled off a wonderful *coup de théâtre* with the publication of William T. Stead's magnificent broadside *If Christ Came to Chicago*! (1894). Stead mixed his fire and brimstone with tables giving sensational details of the highly respectable Chicago landlords who drew rent from the city's multitudinous whore houses, gambling joints and other resorts of low entertainment. The very same year the town of Pullman, just south of Chicago, famous for the heavy-handed paternalism of its master George Pullman, was riven by a bitter strike as the residents joined a national stoppage against their landlord and employer. This was hardly the outcome that Carnegie

had predicted for the carefully-costed benevolence of his business associate and friend, the railroad coach-maker.

Meanwhile, a vast army of men were busy disassembling a never-ending parade of livestock at Chicago's stockyards. Not too far away, Jane Addams and the well-born ladies at Hull House on Halstead Street offered elevating sociability, practical advice and intellectual sustenance to the surrounding ethnic communities.

The rewards of making it in Chicago were huge. At the centre of society around the turn of the century was Mrs Potter Palmer, the wife of a successful real estate developer. The entrance hall of her lake-side mansion was three storeys high, its walls covered with marble mosaic and tapestries. From this hall, you could step into a French drawing room, a Spanish music room, an English dining room, a Moorish corridor or a Japanese parlour. The mistress of this sumptuous palace slept in a Louis XVI bed ten feet high.

Mrs Palmer had imitators and rivals. Her eventual successor as queen bee was Mrs Harold McCormick, born Edith Rockefeller. Emmett Dedmon described the McCormick life style:

> Mrs McCormick carried out her social program in a regal manner; no queen or ruler of a court could have been more rigid in attention to protocol. Even her children, when they were grown, could see her only by appointment . . . . Her large household staff included a first and second butler, two parlor maids, a coachman, footman, houseman and six detectives. Her personal maid had a helper, a sewing woman, who in turn had an assistant . . . . Mrs McCormick allowed herself to speak to only two servants – the chief steward and her personal secretary. Through these she ruled her entire household.
>
> (Dedmon 1953: 303)

Veblen emphasised the high level of theatricality and display in the domestic and social activity of rich American business families. The expectation of performance in this sense was, in his view, focused upon the private sphere, rather than upon the public sphere as in Britain.

The theory of the leisure class

In Veblen's view, the ways of thinking characteristic of business in his day were the product of previous historical stages. During the barbarian epoch of medieval feudalism the institution of property came into existence. Predatory warriors acquired property by, quite simply, taking it and making it their own. One typical form of property acquired by seizure was women. The institution of marriage had its roots in this practice. Possession of property was regarded as an indication of successful exploits and of superior prowess. Property ownership was a sign of masculine aggressiveness and a mark of social status.

The ideology of natural rights which developed in the early modern era of domestic industry – and which still figured in the speeches of contemporary business people – presented a misleading picture of the cultural dynamics of property as a social institution. Property in modern America was still strongly marked with the barbarian heritage. The prestige flowing from property was undermined if the owner appeared to be engaged in any form of useful toil. Self-respecting predatory warriors (or business men) would not be caught 'mixing their labour' with the soil or its industrial equivalent.

The barbarian culture of the business class was a competitive one, organised around conspicuous consumption, including highly visible leisure activities. Pecuniary emulation between individuals was preferred to communal co-operation. Deliberately wasting money and time, the leisure class of large property owners distorted or repressed in themselves an even more basic human trait, one whose historical origins lay in a savage (in the sense of primitive) era before the feudal period. This was the 'instinct of workmanship' (Veblen 1970: 75), in other words the inclination to engage in purposeful activity for the benefit of the whole community. This had predominated in the peaceful neolithic age and was being reinvigorated, in Veblen's view, by the complex machine technology of modern industry. Skilled engineers were developing scientific habits of thought organised in terms of impersonal material causes and effects. Their natural disposition was to use the power of technology for the good of all.

The culture of the leisure class was expressed in the forms of contemporary sport and religion. Higher education provided both to the leisure class. College athletics developed 'truculence and clannishness' (175) as well as an inclination to 'Chicanery, falsehood . . . [and] browbeating' (181). The academic, like the priest, existed in order to enjoy leisure on behalf of the leisure class. The latter were not able to display unaided the capacity for leisure which their station in life commanded. They had to employ others to be leisured on their behalf. Within the home, a man's wife and servants carried out a similar function.

The norms of taste reflected this adoration of the useless and artificial, whether in the form of cast-iron rustic fences, debilitating female forms of dress or, on a grander scale, Chicago's Columbian Exposition. According to Veblen, the ostentatious classicism of the world fair demonstrated that 'The sense of beauty in the population of this representative city of the advanced pecuniary culture is very chary of any departure from its great cultural principles of conspicuous waste' (101).

Impressive as Chicago's pecuniary culture was, the leisure class in America remained in its infancy, compared to its counterpart in Britain. Veblen treated the United States as 'essentially a mature colony, a branch of the British colonial system and of British culture' (Dorfman 1970: 352).

As Veblen put it in *Imperial Germany and the Industrial Revolution*, 'The development of the perfect gentleman (and of the perfect gentlewoman) in any given case takes time.' These institutions were 'a complex affair of usages, distinctions, cultivated tastes, worked out under the general surveillance of the principle of conspicuous waste'.

Specifically, the gentleman and gentlewoman should not in any way be useful. They should certainly not contribute to anyone else's 'physical well-being . . . or . . . pecuniary gain'. By these standards, England was a magnificent success:

> the English community has grown slowly and symmetrically to the highest and most substantial maturity attained by the pecuniary culture within the bounds of Christendom. The other English-speaking peoples have been doing well, but they have come into their heritage too late to have worked out this knotty problem of how to dispose of their disposable margin of goods and energies without leaving a materially serviceable residue.
>
> (Veblen 1964: 140–1)

In *The Theory of the Leisure Class*, Veblen noted two movements in American life which counteracted pecuniary culture. One was the feminist movement arising in the domestic heartland of the leisure class. Upper-class women were more protected than their menfolk from the full blast of pecuniary culture. Within their ranks some were beginning to think that existing arrangements were mistaken. They were demanding emancipation and work. The other contradictory force was the resurgence of the spirit of workmanship among the industrial vanguard of scientists and engineers. Their field of action was the business enterprise to which we now turn.

The theory of business enterprise

The argument of *The Theory of Business Enterprise* (1965) turns around two distinctions. The primary distinction is between the economic, cultural and political tendencies associated with, respectively, business enterprise and the machine process. A secondary distinction is made between the standards of economic behaviour in the age of domestic industry and handicrafts and those in operation at the time Veblen was writing. It is convenient to begin by briefly considering the latter distinction.

In the old days, the producer and the customer had close personal contact. Craftsmen were careful of their reputation for workmanship. The 'adage that "Honesty is the best policy" seems on the whole to have been accepted and to have been true' (Veblen 1965: 52). In more recent times,

personal contact with customers had been minimised. Misleading advertising and widespread profiteering had become normal: 'Business management has a chance to proceed on a temperate and sagacious calculation of profit and loss, untroubled by sentimental considerations of human kindness or irritation or of honesty' (Veblen 1965: 53).

The purposes underlying economic life had changed:

> Under the old order, industry, and even such trade as there was, was a quest for livelihood; under the new order industry is directed by the quest for profits. Formerly, therefore, times were good or bad according as the industrial processes yielded a sufficient or an insufficient output of the means of life. Latterly, times are good or bad according as the process of business yields an adequate or inadequate rate of profits. The controlling end is different in the present. . . . Prosperity now means, primarily, business prosperity; whereas it used to mean industrial sufficiency.
>
> (Veblen 1965: 178)

The distinction between industrial processes and business operations was central to Veblen's analysis of modern capitalism. The former was based upon the operation of machinery and relied upon 'a reasoned procedure on the basis of a systematic knowledge of the forces employed' (6). The mechanical basis of modern industry was complex. Complementary processes and sectors interlocked closely. The system depended upon the constant 'running maintenance of interstitial adjustments between the several sub-processes or branches of industry' and 'unremitting . . . quantitative precision' (8) with respect to materials and machinery. The pressures for uniformity and standardisation were great. They extended from the mechanical operations themselves to the producers and consumers of industrial goods.

The task of regulating this system fell upon those who conducted business transactions: 'It is at this point that the business man comes into the industrial process as a decisive factor' (18). However, the transactions of such men were carried on 'for business ends, not for industrial ends' (27). Their whole object was pecuniary gain. Ironically, these gains were greatest when there were large and frequent disturbances of the industrial system. The business man's special skill consisted not in the efficient management of a particular industrial process but in 'an alert redistribution of investments from less to more gainful ventures, and . . . a strategic control of the conjunctures of business through shrewd investments and coalitions with other business men' (24–5). Such people had a vested interest in sabotaging the smooth running of industry (see Veblen 1919).

Business operations consisted to a great extent of struggles between rival groups of business men using the weapon of 'pecuniary coercion'.

Typically, such operations involved 'a derangement, more or less extensively, of the industrial system at large' (Veblen 1965: 32). The exigencies of business prevented the potential benefits of technological advance from being realised. The plutocrats were too busy putting each other out of business and establishing large combinations run by fewer and fewer bosses. Veblen pointedly remarked that

> probably the largest, assuredly the securest and most unquestionable service rendered by the great captains of industry is . . . this sweeping retirement of business men as a class from the service and the definitive cancelment of the opportunities for private enterprise.
>
> (Veblen 1965: 48)

This process was far from complete. In the meantime, the community as a whole was subsidising, in the form of high prices, the enormous costs of competitive selling. For example, advertising was an expensive input intended to create 'vendibility' (59) – rather than usefulness to the consumer. In order to conduct his strategies, the business man created a mountain of credit on the basis of 'good-will'. For example, 'The "good-will" of Mr Carnegie and his lieutenants, as well as of many other large business men connected with the steel industry, has also no doubt gone to swell the capitalization of [the United States Steel Corporation]' (172–3).

Borrowed funds eliminated the need to wait until existing capital had been turned over, but they did not represent or bring about any increase in industrial capacity. In fact, they created a large gap between the true value represented by industrial equipment and the fictitious value expressed by credit ratings. The pressure of interest payments stimulated further borrowing. When the gap became too wide, credit was withdrawn, companies were revalued downward and liquidation often ensued.

Capital in business corporations was an object of trade. Ownership and management were, as a consequence, widely separated.The links made by Adam Smith between the enterprise of the business man, the efficiency of industry and the good of the community no longer applied. The business man could end up rich while the corporation he had invested in went into liquidation. The community bore the expenses of his wheeler-dealing and suffered the ensuing loss of industrial production.

Two powerful movements were undermining the dominance of business enterprise. One, already briefly mentioned, was the cultural impact of machine technology. Unlike Tocqueville, Mill, Bryce and Ostrogorski, Veblen believed that the advance of industrialism had a positive civilising effect. It cleared the mind of myth. It raised intellectual and moral standards. Not through the mediation of successful entrepreneurs (in spite of what Carnegie thought), but directly through machinery's matter-of-fact character. This left little room in the minds

of its operatives for the conventional falsehoods of business men.

The industrial working class was decreasingly influenced by the false notion of property based upon natural rights. Individual property ownership had little hold on the mind of a workman who had to be geographically mobile to meet the demands of industry. It was pointless to settle down in his own house. In any case, thrift was a useless exercise in his condition of life. His trade union resisted the pecuniary coercion exercised by bosses in the name of property rights. Socialistic notions were becoming appealing. More generally, 'the cultural growth dominated by the machine industry is of a sceptical, matter-of-fact complexion, materialistic, unmoral, unpatriotic, undevout' (Veblen 1965: 372).

Another powerful movement ran in the opposite direction. It drew its strength from the entrenched position of business within the polity: 'Representative government means, chiefly, representation of business interests' (286). Popular acceptance of the principles of property and patriotism was under threat in ways already noticed. Nevertheless, by a 'happy knack of clannish fancy' the 'common man' still felt he had 'some sort of metaphysical share in the gains which accrue to the business men who are citizens of the same "commonwealth" ' (289). Perhaps the use of that particular term was a quiet dig at Bryce's *The American Commonwealth*, which had gone through several reprints in the decade before *The Theory of Business Enterprise* appeared.

In any case, the beneficiaries of business enterprise still had powerful cultural and political resources upon which to draw. They defended their interests through the medium of political parties. Veblen went further than Ostrogorski. He did not just argue that business interests used political parties intermittently to achieve specific favours. According to Veblen, business interests organised the parties as a permanent means of ensuring favourable government policies:

> The business interests domiciled within the scope of a given government fall into a loose organization in the form of what might be called a tacit ring or syndicate, proceeding on a general understanding that they will stand together as against outside business interests. The nearest approach to an explicit plan and organization of such a business ring is the modern political party, with its platform, tacit and avowed. . . . The ring of business interests which secures the broadest approval from popular sentiment is, under constitutional methods, put in charge of the government establishment.
>
> (Veblen 1965: 294)

Since the 1870s, capitalists had confronted a serious problem of ' "Overproduction" or "underconsumption" ' (214). Many businesses had become over-capitalised relative to their profit-earning capacity. A major culprit was 'the advancing efficiency and articulation of the

processes of the machine industry' (Veblen 1965: 254). One response had been the development of pools and trusts to regulate price and inhibit cut-throat competition. Another response had been imperialism. For example, in the early twentieth century 'it was the Spanish–American War, coupled with the expenditure for stores, munitions, and services incident to placing the country on a war footing, that lifted the depression and brought prosperity to the business community' (251).

The 'current policy of war and armaments' was an 'extreme expression of business politics' (292), one which shifted pecuniary competition to the international sphere. International policy was directed at advancing 'the frontiers of pecuniary culture among the backward populations. There is commonly a handsome margin of profit.' Since these peoples 'do not willingly enter into lasting business relations with civilized mankind', armaments were needed to make trade lucrative (295).

There was a clear danger that resources would be drawn away from industry into war, leaving nations ruined by 'a policy of emulative exhaustion' (299). In fact, imperial policies were likely to be justified increasingly in terms of dynastic goals. Furthermore, it was quite possible that dynastic considerations, or the pride of governments, might take the leading part. Business interests might become a means rather than an end.

In fact, there was no escape. One way or another, business enterprise was doomed. It would be cast down at the hands of an insurgent scientific machine culture, oriented to the needs of the community and heedless of private property. Or it would succumb to a resurgent old regime of 'status, fealty, prerogative, and arbitrary command' enforced by 'a militant, coercive home administration' (398–9).

Veblen's discussion of imperialism and underconsumption drew straight from and explicitly upon John A. Hobson's recently-published work. It is time to examine this work directly.

The need for a new liberalism

Hobson regarded Veblen as 'essentially a powerful exploratory thinker' who was able 'to discover and reveal the structure of modern society and some of its operative tendencies more truthfully than any other thinker of his age' (Hobson 1936: 22). Although it is unlikely that they ever met, the two writers did exchange letters. Hobson's visits to the United States gave him first-hand experience of that society's distinctive 'blend of ruthless competition and equally ruthless monopoly'.

Democracy and capitalism were at the centre of Hobson's concerns. He acknowledged the 'clear and comprehensive exposure of the corruption of democratic institutions in American states and cities . . . given by Ostrogorski'. However, he believed that in England 'the play of

social–economic forces is more obscure and more impeded by traditional and humane considerations' (Hobson 1938a: 68). Hobson's intellectual objective was to provide a theoretical means whereby the 'humane' could slip free of the 'traditional'.

Hobson wanted to bring in the state to tame the excesses of capitalism and strengthen the basis of collective and public life. Individual development would then be possible in the context of an intelligent and caring democracy. Ironically, this programme has some superficial resemblances to the 'municipal socialism' of Joseph Chamberlain. Ironic, because around the turn of the century Chamberlain became the major political spokesman for the policy of imperialism. Hobson made his name by a series of whole-hearted attacks upon this policy, especially during the Boer War in South Africa. At the time of this war, Chamberlain was Colonial Secretary in the Conservative government.

Imperialism

Chamberlain's overall strategy of imperialism was neatly expressed in a speech he made in 1895:

> I regard many of our colonies as being in the position of undeveloped estates, and estates which can never be fully developed without Imperial assistance. . . . It is only in such a policy of development that I can see any solution of those great social problems by which we are surrounded. Plenty of employment and a contented people go together, and there is no way of securing plenty of employment except by creating new markets and developing the old ones. . . . If the people of this country are not willing to invest some of their surplus wealth in the development of their great estate, then I see no future for those countries, and it would have been better never to have gone there.
> (Quoted in Garvin 1934: 19–20)

Chamberlain's promotion of colonial development as a means of achieving social betterment recalled his enthusiasm for property development in central Birmingham on similar grounds. In both cases, opponents complained that the supposed beneficiaries of his policies – the slum dwellers of inner Birmingham in one case, the British working class and the native population in the other – were, in fact, the victims. Slum dwellers were not rehoused by the city when their homes were demolished. Imperialism, Hobson argued, inhibited social reform at home and encouraged despotic policies on the part of business and government.

Few politicians were more implicated in the politics of the Boer War (1899–1902) than Joseph Chamberlain. In 1899 Hobson went to South Africa for several months on behalf of the *Manchester Guardian*. He examined the tensions that developed between the Boers and the British

inhabitants, following the discovery of gold in the Transvaal. Hobson interviewed a wide range of key politicians and business people, including Cecil Rhodes and General Smuts. In Hobson's view, the Boer War was the result of a conspiracy organised by financiers with capital tied up in the gold mines.

Imperialism: A Study (1938b) first appeared in 1902, a revised edition following three years later. The material on South Africa was woven into a more general argument based upon the mechanism of oversaving – in other words, overinvestment or underconsumption – that had originally got him into trouble with the academic establishment fifteen years before. Lenin later drew upon Hobson's work in his own *Imperialism. The Highest Stage of Capitalism* (1964a). To have been praised by both Lenin and Keynes is no mean recommendation.

Hobson argued that since 1870 British overseas expansion had undergone a transition. Before this date, colonialism had involved white migration to sparsely populated territories. Full British citizenship was enjoyed by settlers who, in some cases (e.g. Australia) set up a separate nation. After this date, a new imperialism appeared, especially in Africa and Asia. Britain, France, Germany and other advanced societies competed to establish control over new territories in these continents. In these territories, the white settlers were a small but dominant minority. The oppressed native majority, forced to work for foreign business interests, were 'too foreign to be absorbed and too compact to be crushed' (11). Injustice and hostility were the outcome.

According to Hobson's calculations, one third of British imperial territory and a quarter of its population were acquired during the last three decades of the nineteenth century. The new acquisitions brought few trading opportunities to Britain. They were not to be explained by the need to find outlets for the British population. Its rate of increase was apparently tending to fall. Equally unconvincing was the suggestion that military and diplomatic competition between nations for imperial territories was a means of maintaining national vigour and ensuring 'social efficiency' (155). This form of Social Darwinism, encouraged by, for example, Benjamin Kidd (1894), turned might into right. In Hobson's view, art, literature and science were far more rational fields of international competition.

The high costs of imperialism were not justified by economic or political returns. Jingoism, the spirit of 'my country right or wrong', overrode this difficulty. Capitalist interests encouraged this spirit through the media. In particular, public opinion was manipulated by the press. In Hobson's view, modern newspapers combined the vices of 'a Roman arena, a Spanish bull-ring and an English prize fight all rolled into one' (1901: 29). They were brutalising, peddling vicarious violence to a receptive public. Imperialism fed upon irrationality and atavism.

As long as the population at large accepted the costs of imperialism, benefits flowed to a number of vested interests. Financiers profited from a perpetual climate of speculation. Service personnel, the armaments industry, shipping magnates, missionaries, engineers and civil servants all found profitable employment in the empire. So, indirectly, did the religious and education institutions which depended upon their patronage. Democracy suffered. The despotic tendency of imperial administration was re-imported into the home country. Capital was diverted from social reform towards the empire.

The pressure for imperialism stemmed from the 'chronic congestion of productive power and of production' (Hobson 1938b: 84–5) unmatched by consumption. Trusts were formed within some industries to reduce their total output, a tendency noted by Veblen also. However, this manoeuvre failed to solve the problem of what to do with excess funds within the system as a whole. Hobson commented:

> Thus we reach the conclusion that Imperialism is the endeavour of the great controllers of industry [i.e. the financiers and trust-makers] to broaden the channel for the flow of their surplus wealth by seeking foreign markets and foreign investments to take off the goods and capital they cannot sell or use at home.
>
> (Hobson 1938b: 85)

Wasteful and parasitical, imperialist entrepreneurs preferred extensive to intensive development, seeking quantitative success at the expense of qualitative advance.

Hobson became a strong advocate of international organisation. This would supply 'some organised representation of civilised humanity' (1938b: 232), enforcing peace and justice. In the early phases of the First World War, Hobson joined a 'small Neutrality group' in an effort to keep Britain out. In fact, he claimed, 'My only contribution to this cause was the annexation of Lord Bryce, just returned from America, whom I tracked on Saturday afternoon to a place in Camden Town where he was personally engaged in unpacking trunks of books' (1938a: 103).

When the war was over, Hobson served on the Bryce Committee which drew up initial plans for a League of Nations. He published his own minority view in *Towards International Government* (1915). Such a government should have an armed force at its disposal. Backed up by favourable world opinion it would be able to stop the rich nations from oppressing the poor. International peace would not be soundly based, however, until individual societies had developed satisfactory forms of capitalism and democracy.

Welfare and the market

Hobson wanted a theoretical and practical alternative to the existing system. This alternative was based upon an incisive critique of capitalism, focusing upon the limitations of economics as a discipline, the unjust nature of the market and the causes of recurrent trade depressions.

John Ruskin provided Hobson with a fundamental insight. In the latter's words: 'A subdivided routine-producer could not be an efficient consumer of any of the more worthy sorts of wealth. Nor could an idle consumer, living not by his labour but on his "means" ' (Hobson 1938a: 41). Hobson, like Ruskin, wanted to restore to economics the moral dimension it had lost since Adam Smith's time.

Like Veblen, Hobson thought of 'homo economicus' as active, purposive and, increasingly, humane and rational: 'the barriers against the social control of economic processes by human intelligence and will are continually being weakened' (1930: 125). Increasingly, society would be able to minimise the material and psychic costs of production and maximise the utilities available to the consumer. Producers would perform tasks for which they were psychologically fitted. Consumers would become capable of appreciating their own higher needs.

Organic unity would be brought about not only between human beings as producers and consumers but also between individual and social beings. Both would be achieved through the development of a more rational and moral human consciousness. Hobson shared with his contemporary, L.T. Hobhouse, the view that the evolution of such a consciousness could be moulded by reformers such as himself.

Capitalism interfered with the achievement of organic unity. Advertising created false needs. Many things bought and sold in the market were valueless: they represented not wealth but (Ruskin's word) 'illth' (*viii*). Drawing upon Veblen's argument in *The Theory of the Leisure Class* – 'a work of profound and penetrating power' (1914: 142) – Hobson condemned 'the inevitable effects of easily-gotten and excessive wealth upon the possessors. So far as they operate, they induce futile extravagance in expenditure. Instead of making for utility, they make for disutility of consumption' (144).

In fact, society's contribution to production gave it a proper claim upon the income and wealth of individuals. This contention was 'the lynchpin of Hobson's critique of classical economics' (Allett 1981: 71). Exchange depended upon a price system which summed up the needs and capacities of a vast network of human beings. Productivity gains and profits achieved through the market were, in part, a social product. Part of the surplus wealth created should return to society as public property. It should be part of the 'commonwealth' (Hobson 1938a: 190) – a word which Hobson, unlike Veblen, could use without irony.

In fact, the market operated unjustly. It failed to distribute wealth according to either needs or maintenance costs. Society's claims were ignored. Force and bluff prevailed, for example in relations between big business and labour. In such a society, Say's Law – that income creates its own demand by way of incomes earned in production – did not apply. When huge inequalities of private wealth existed, the rich could not spend all they had and the poor could not buy all they needed. As has been seen, one response by capital to this situation was imperialism. An alternative response, more favourable to society's interests, was available.

A new democracy

> The pretence that capitalism is consistent with a real democracy in which the organised working classes can take their part in Government . . . wears thinner and thinner . . . . To present the appearance of democracy, without handing over the reality of government to the people, has long been the unchallenged achievement of the upper classes in Britain and America.
>
> (Hobson 1938a: 119)

To repair the damage, Hobson proposed a more active role for the state.

On the one hand, negative freedoms should be maintained – insofar as they did not interfere with the collective interest. Hobson erected a less formidable barrier than did J.S. Mill around individual liberty. He was prepared, for example, to consider 'rational control of parentage, at least to the extent of preventing through public education, or if necessary by law, the propagation of certain surely recognized unfitnesses' (1938a: 173).

On the other hand, the state should advance positive freedom by creating a moral environment conducive to self-development and social awareness on the part of the citizen. This environment would be founded upon resources provided by public property rights. Exponents of the liberal tradition had forgotten how important these rights were:

> In earlier civilisations, where there was little opportunity to utilise the surplus productive power of the people for capitalistic enterprises . . . the right and power of the community to direct what surplus energy was available into . . . common services were supported by a very real sentiment of the people. The individualistic trend of modern times has largely stifled this active sense of community.
>
> (Hobson 1930: 162)

Individual and social activity would intermingle, each supported by distinctive forms of property, one public, the other private.

Like Tocqueville, Hobson approved of the habit of human association. It served the evolutionary process of fostering higher, more rational, socialised ideals:

> the evolution of the mind of man into a fuller rationality means the strengthening and clarifying of those relations of feeling and thought which bind him to his fellows and to his world and which are rooted in the 'blind' instincts of gregarious, superstitious, curious man.
>
> (Hobson 1914: 356)

Referenda and other forms of democratic participation would help this process along. Hobson agreed with Bryce rather than Mill at this point. However, like Mill, Hobson thought the details of government should definitely be in the hands of experts. In fact, at the very end of his autobiography, the final point he makes is that:

> the general standard of intelligence and knowledge must rise to a level where a reasonable acceptance [by the less educated classes] of special cooperation and expert directness is attained. The old notion that any ordinary man is equal to the doing of any job, or at any rate to judging how it should best be done . . . must be displaced by a clear conviction that an effective operative democracy requires close attention to the inequalities of men in order that special abilities may be utilized for the common welfare.
>
> (Hobson 1938a:212)

Unfortunately, the community's wealth was being taken over by the forces of 'improperty' (Hobson 1917: 52), especially the military and profiteering capitalists. In *Democracy After the War* (1917), Hobson argued that the poker-table ethics of capitalism had to be countered by a series of measures. These should include: functional representation of the major economic interests in a national industrial council; a minimum wage; and a redistributive income tax.

Especially important would be a new system of regulating the main industries producing standardised goods needed by all. These would be run by 'a minority of trained specialized brain and hand workers' with a view to maximising efficient production. There would also be trade-union organisations, joint councils of managers and workers, and conciliation boards including consumer representatives. Private enterprise would continue to run industries supplying specialised or idiosyncratic needs which could not be standardised.

Hobson was not an old-style liberal after the fashion of James Bryce. Nor was he quite a socialist. He shared Richard Cobden's vision of international prosperity and civilisation based upon free trade. However, the main enemies of this vision, in his view, were not the aristocracy (the object of Cobden's anger) but the manipulators of finance capital.

Hobson favoured an increase in the state's role, but he did not wish to abolish the market.

Individual freedom was valued, but it had to be very heavily supplemented by a positive freedom enacted by the state for the community as a whole. Just as J.S. Mill worked hard to shake himself free of the ethical assumptions of Benthamism, so Hobson struggled to move beyond the economic assumptions of Mill, whose treatment of supply and demand, encountered as a student, 'seems even at that early age to have stuck in my gizzard' (Hobson 1938a: 25).

Conclusion

Hobson concurred with Veblen in the main outlines of his analysis of industrial capitalism. However, he differed from Veblen on how the development of democracy was related to the progress of capitalism.

For Hobson, the extension of democratic participation within a capitalist society would foster the evolution of human reason and morals towards a higher plane. A more organic economic order could then be built upon the principles of human welfare, sustained by enlightened consent. In other words, democracy would humanise capitalism. In fact, universal manhood suffrage was not finally achieved in Britain until after the First World War. By contrast, Veblen lived in a society which had much longer experience of something approaching universal suffrage. In Veblen's view, democracy was not likely to reform capitalism.

Generally more pessimistic than Hobson, Veblen concentrated upon the deforming contradiction between industry and business, between the matter-of-fact scientific spirit and the predatory or pecuniary animus. A true democracy concerned for the best interests of the community could not appear until after capitalism underwent a final crisis. This would destroy the system of business enterprise. At this point a syndicalist regime organised through soviets of engineers, scientists and specialised operatives would be able to assume control of industry. Guided by the instinct of workmanship such a regime would employ economic resources in the interests of the community as a whole. Instead of being the agency through which capitalism was reformed, democracy in this syndicalist form would emerge to fill the vacuum left by the latter's demise.

That possibility lay in the future. By 1914 the key configuration of forces had become the interplay between big business, the state and the people. Veblen and Hobson both asserted that the first had subverted the second and duped the third – with potentially disastrous results. The cataclysm of the First World War appeared to justify their arguments,

giving history's stamp of approval to the intellectual work of their most creative years. However, the period 1914–18 was a beginning as well as an end. It brought a new international order into being and enforced a new reckoning of the issues.