

JOHN ATKINSON HOBSON

20

John Atkinson Hobson (1858–1940), the son of a middle-class family, studied the classics at Oxford. After graduation he taught in that field and gave university extension lectures in English literature. His interests soon shifted to economic subjects, and he began to develop heretical ideas through his association with the businessman and mountain climber A. F. Mummery.¹ Because of ideas then considered radical, Hobson lost his position as an extension lecturer at London University. Although excluded from academic life, he was extremely active not only as a writer of fifty-three books but also as a journalist and a popular lecturer. One of his major themes was the interdependence of politics, economics, and ethics. A journal article he wrote on imperialism induced the editor of the Manchester *Guardian* to send him to South Africa on a study that eventually led to his writing three books, the most famous of which was *Imperialism*. He was a pacifist during World War I. Hobson was an admirer of Veblen's *The Theory of Business Enterprise*, and he wrote a book about Veblen in 1936.

Hobson's unorthodox ideas were scorned by English academic economists. In 1913, in reviewing one of Hobson's books, J. M. Keynes (Chapter 21) wrote, "One comes to a new book by Mr. Hobson with mixed feelings, in hope of stimulating ideas and of some fruitful criticisms of orthodoxy from an independent and individual standpoint, but expectant also of much sophistry, misunderstanding, and perverse thought." In the 1930s Keynes reversed his original opinion of Hobson. In *The General Theory of Employment, Interest and Money* (1936), Keynes wrote respectfully of Hobson's "criticisms and intuitions."

Hobson was one of those rare social reformers who used economic theory as a foundation for his proposals. He rejected the classical and neoclassical ideas that pure competition is the typical market situation and that a harmony of interests prevails, and that led to a program of reform, largely through government intervention, which broadly interpreted may be considered welfare economics.

THEORY OF UNDERCONSUMPTION

In the 1880s Hobson developed the idea that underconsumption and oversaving lead to overinvestment—a concept that later won him Keynes's acclaim. The central problem of our society, proclaimed Hobson, is the recurring unemployment of labor, capital, and land. As early as 1889, he and Mummery argued against the classical

¹ Mummery died in the Himalayas in 1895.

doctrine that the more thrifty a nation is, the more wealthy it becomes. On the contrary, they said, an increase of capital requires a subsequent increase in the consumption of the commodities that will be produced by that capital. If people wish to save more now, they must be willing to consume more in the near future. If they persist in saving now and attempt to invest their savings without adequately increasing their consumption in the near future, the actual formation of new capital will be limited:

Our purpose is to show . . . that an undue exercise of the habit of saving is possible, and that such undue exercise impoverishes the Community, throws labourers out of work, drives down wages, and spreads that gloom and prostration through the commercial world which is known as Depression in Trade; that, in short, the effective love of money is the root of all economic evil. . . .

We are thus brought to the conclusion that the basis on which all economic teaching since Adam Smith has stood, viz., that the quantity annually produced is determined by the aggregates of Natural Agents, Capital, and Labour available, is erroneous, and that on the contrary, the quantity produced, while it can never exceed the limits imposed by these aggregates, may be, and actually is, reduced far below this maximum by the check that undue saving as the consequent accumulation of over-supply exerts on production; i.e., that in the normal state of modern industrial Communities, consumption limits production not production consumption. . . .

Reaching our main conclusion, that the undue saving of individuals impoverishes the Community, simultaneously lowers Rent, Profit, or Interest and Wages, we contradict the generally accepted dogmas that the saving of the individual seeking his own advantage necessarily works for that of the Community, and that wages can only rise at the expense of profit, or profit at the expense of wages, or both at the expense of rent.²

Why is there so much saving and not enough consumption? To answer this question, Hobson developed a theory of the proper distribution of income that was quite different from that of his contemporaries. Part of the income received by labor is for its maintenance, or subsistence, which enables workers to renew their strength from day to day and to raise families to replenish the labor supply. Additional wages provide for growth in the economy, because workers who receive payments above the bare maintenance are healthier, better educated, and more energetic. If wages cover more than maintenance (costs of subsistence) and the productive surplus (costs of growth), the remainder will be an unproductive surplus, or an unearned increment that does not increase output. Thus too high wages are unproductive because they do not call forth a greater supply of labor.

Capital likewise has two corresponding costs. The maintenance costs provide for the replacement of worn-out capital. To induce growth, both profit and interest are required to bring about saving that will be invested. If interest and profit are above the level required for the maintenance and healthy growth of capital, the surplus payments are an unproductive, unearned increment.

According to Hobson, labor typically gets its subsistence costs, but does not receive the full costs of growth. In other words, higher wages generally increase the efficiency and productivity of labor. There is too much saving and not enough

² A. F. Mummery and J. A. Hobson, *The Physiology of Industry* (New York: Kelley and Millman, 1956), iv, vi, viii. (Orig. pub. 1889.)

consumption because of the failures of competition among businessmen to work effectively toward raising wages and lowering property incomes. Because capitalists' incomes are too high, they save too much. They are motivated not only by the desire to consume now or in the future but by the urge to save and invest—to accumulate wealth—as well. This accumulation of wealth is possible only if the demand for consumer goods increases. To some extent this will occur, and then saving is socially useful. There is always some appropriate rate of saving that will increase the productive power of society proportionately with the increased effective market demand for consumption. The result is growth associated with full employment. If, however, the rate of saving is too high, unemployment then rises. If the rate of saving is too low, productive power is wasted, and the future is sacrificed to the present.

Oversaving and underconsumption create business cycles. During prosperity, prices are high; capital investment is high, facilitated by the expansion of bank credit; and the productive power grows more rapidly than consumption. The first symptom of coming depression is a weakening of prices: the meeting of bills becomes less certain, and the value of securities held as collateral shrinks. Pessimism spreads, banks curtail credit, bankruptcies spread, and financial houses may crash. Suspicion changes to panic as depositors and investors seek to withdraw their funds.

Hobson disputed the view that the financial collapse is due to the psychological aberrations of individuals. Collapse is based on the imbalance that arises in industry. What reverses the downward trend? The decline in individual saving as incomes fall eventually brings about a new balance between consumption and saving:

The whole financial system is based upon actual industry: reflects, anticipates, and frequently exaggerates its forces and tendencies. Depressions, with their accompanying unemployment, must therefore be traced through their operations in the delicate mechanism of finance to the failure of consumption to keep full pace with the increase of productive power so as to furnish a full and equable employment for this power. . . .

Why does [a depression] not continue indefinitely and grow ever worse? Because from the very beginning of the maladjustment between spending and saving a process of readjustment gradually comes into play. Directly a shrinkage in demand for commodities and new productive capital occurs, the lessened rate of production begins to reduce all incomes, including those of the saving class. . . . When the shrinkage of production and income has gone far enough, not merely is the actual amount of saving reduced, but the *proportion* of saving to spending is brought back towards the normal rate which preceded the attempt to oversave, or even below that rate.³

THEORY OF IMPERIALISM

Hobson's analysis of oversaving and underconsumption led to his theory of imperialism. For this he was praised by Lenin, who said that although Hobson was a bourgeois social reformer and pacifist, he gave an excellent and comprehensive description of imperialism.

³ J. A. Hobson, *The Industrial System*, 2d ed. (New York: Scribner's, 1910), 301–303.

An abundance of goods that cannot be sold at home can be unloaded in the colonies. Likewise, surplus savings that cannot be invested at home because of inadequate consumption can be invested in the colonies. The industrial and financial magnates persuade their governments to acquire colonies through immense public expenditures, which in themselves further add to the profits of the industrialists and financiers. Yet, if income is distributed properly, the home market is capable of indefinite expansion, and the drive to exploit colonies becomes unnecessary:

Every improvement of methods of production, every concentration of ownership and control, seems to accentuate the tendency. As one nation after another enters the machine economy and adopts advanced industrial methods, it becomes more difficult for its manufacturers, merchants, and financiers to dispose profitably of their economic resources, and they are tempted more and more to use their Governments in order to secure for their particular use some distant undeveloped country by annexation and protection. . . .

It is this economic condition of affairs that forms the taproot of Imperialism. If the consuming public in this country raised its standard of consumption to keep pace with every rise of productive powers, there could be no excess of goods or capital clamorous to use Imperialism in order to find markets. . . .

The fallacy of the supposed inevitability of imperial expansion as a necessary outlet for progressive industry is now manifest. It is not industrial progress that demands the opening up of new markets and areas of investment, but maldistribution of consuming power which prevents the absorption of commodities and capital within the country.⁴

In his autobiography, *Confessions of an Economic Heretic* (1938), Hobson granted that in writing about the economic basis for imperialism he had presented an excessively simple case for the economic determination of history. He said that at the time he had not yet acquired proper perspective on the interaction among economics, politics, and ethics.

INCOME REDISTRIBUTION

What is the remedy for oversaving, underconsumption, depression, and imperialism? A redistribution of income toward greater equality is required to reduce the proportion of saving to consumption spending. The bulk of the saving is done by the wealthy, because “the proportion of saving is generally in direct ratio to the sizes of incomes, the richest saving the largest percentage of their income, the poorest the smallest.” Would redistribution check industrial progress by unduly restricting the quantity of saving and investment? Not at all. The increased demand resulting from the readjustment of income would stimulate industry, promote full and more stable employment, and increase the demand for goods. As a result, the absolute quantity of saving would be as large as before, although it would be smaller in relation to income.

One way to redistribute income is through labor union action to raise wages, pensions, and other benefits to provide a higher standard of living for wage earners.

⁴ J. A. Hobson, *Imperialism*, 3d ed. (London: Allen and Unwin, 1938), 80–81, 85–86. (Orig. pub. 1902.)

But the labor movement, said Hobson, has historically been at best a clumsy and unreliable instrument for redistributing income, especially since the unskilled workers get the least while the highly skilled and well-organized workers get the most. Much more effective is reliance on the state to achieve a more equitable and more socially advantageous distribution of wealth. Such public intervention takes three main forms: government regulation of industry, government operation of industry, and taxation to raise revenue for public consumption.

Government regulation includes all legal powers to control private industry, thereby diverting surplus income into wages or other expenses to improve conditions for the workers, such as minimum wage enactments, workers' compensation laws, limited hours of labor, improved sanitation, and so forth.

Government operation of industry is suitable where monopolies develop, or where public convenience requires it. Such industries might include transportation, communications, mineral resources, banking and insurance, water, gas, and electricity. Because these are industries in which large surplus profits are typical, their socialization makes these profits available to society. This type of socialism would still leave wide areas in the economy under private enterprise, and individual initiative would have many opportunities to serve society.

The state should redistribute income by taxing away part of large incomes. The largest and therefore the most objectionable incomes are derived from economic rent of land and from excessive interest and profits that occur mainly when competition gives way to monopoly. This kind of taxation would strike at the root of depression and imperialism because it would cure the disease of oversaving. The money received by the state should be used to provide such necessary social services as health and education.

Hobson amplified his system of welfare economics with a criticism of orthodox theorists in their valuation of cost and utility in terms of money. He preferred a valuation of industry in terms of human effort and satisfaction. The standard of human well-being should replace the monetary standard of wealth. We should be concerned, he said, with the human interpretation of valuation of industry by asking two questions about the goods we produce: What are the net *human* costs involved in their production? What are the net *human* utilities involved in their consumption? Society should distribute the costs of production according to the ability of individuals to bear these costs, and it should distribute the goods produced among consumers according to their capacity to derive utility from them. Human costs would thereby be minimized and utilities maximized.

Hobson's position in the history of economic thought is secure. As a pioneer welfare economist, he lived to see some of his ideas on the causes and remedies for depression embodied in the Keynesian system. We shall see, however, that Keynes and his followers presented these ideas in a much more sophisticated way.

Selected Readings

Hobson, John A. *Confessions of an Economic Heretic*. London: Allen and Unwin, 1938.

_____. *The Economics of Unemployment*. 2d ed. New York: Macmillan, 1931. [Originally published in 1922.]

- _____. *Imperialism*. 3d ed. London: Allen and Unwin, 1938. [Originally published in 1902.]
- _____. *The Industrial System*. 2d ed. New York: Scribner's, 1910.
- _____. *The Problem of the Unemployed*. London: Methuen, 1896.
- _____. *Wealth and Life*. London: Macmillan, 1930.
- _____. *Work and Wealth*. New York: Macmillan, 1914.
- Mummery, A. F., and J. A. Hobson. *The Physiology of Industry*. New York: Kelley and Millman, 1956. [Originally published in 1889.]