

John Stuart Mill (1806-1873)

- *Principles of Political Economy*, 1848
- Contributed to economics, logic, political science, philosophy of science, ethics and political philosophy.
- A scientist, but also a social philosopher and a social reformer

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Two social movements that influenced Mill

1. Socialism

2. Utilitarianism

- Early (utopian) socialism (beginning of 19th century):
 - Very diverse movement
 - Insisted that capitalism is disharmonious
 - Objected to capitalism on ethical basis (capitalism is unjust, there is too much poverty and inequality)

How to define capitalism, socialism and communism?

- Capitalism:
 - *Private ownership of economic resources*
 - *Market is an allocation and distribution mechanism*
- Socialism:
 - *State or public ownership of resources (capital)*
 - *Market still serves to some extent as mechanism of allocation and distribution*
- Communism:
 - *State ownership of resources*
 - *State (or central planner) decides on the allocation of resources and on the distribution of incomes (“from each according to his/her ability, to each according to her needs”)*
 - Do you like this distributional principle?
 - What is wrong with it from the ethical perspective? From economic one?

What is utilitarianism?

- Leader of the movement – Jeremy Bentham (1748-1832), economist and philosopher
- Utilitarianism is an ethical view that the only standard by which moral rules, civil laws, and economic actions or outcomes should be evaluated is *the principle of utility: maximization of the sum of the happiness (utility) of all members of the society.*
- In formal terms: $\max \sum u_i$
- Money as an instrument in measuring utility

Problems with utilitarianism

- Is money a good instrument in measuring utility?
- How interpersonal comparisons of utility (ICU) are to be made?
 - needed because you maximize $\sum(u_i)$
- People have different capacities for feeling happiness
- So, ICU are really hard, maybe impossible in science
- Is maximizing the sum of utilities always a good policy?
- What should we do with an evil neighbour Max, who is loved by nobody?

Mill on the role of government in the economy, economic policy and socialism

- Introduced the distinction between the laws of production (LP) and the laws of distribution (LD)
- LP are laws of nature, cannot be changed by human will or institutional arrangements
- LD are not fixed, can be changed by human will

Is the distinction valid?

- Introduced to argue that you can redesign the institutions of capitalism to improve the well-being of the poor.
- Two meanings of distribution of income in economic theory: 1) functional distribution of income; 2) personal distribution of income
- Personal distribution of income can be influenced by the society or the government.
- But the functional distribution of income (e.g. Malthus population principle) depends on the same set of factors as laws of production

Reforms proposed by Mill (to achieve more equality in personal distribution of incomes)

- High rates of taxation on inheritances (but he opposed progressive taxation)
- Formation of industrial cooperatives, firms in which workers would participate in profits or shared the ownership of capital with capitalists.
- To reduce the growth of the population (enlighten the working class through education about birth control).
- To limit the right of property in land. A tax on all increases in land rent.

Utilitarianism and economic (in)equality

- How redistribution of income or wealth affects the utilitarian policy objective, i.e., the sum of utilities of all members of society $\sum u_i$?
- How the sum of utilities changes if we move 100 \$ from a rich person to a poor person? (ceteris paribus = all other things remain constant)
- The change in utility of a rich person (MU_R – marginal utility) is negative, the MU_p of a poor one is positive
- How about the sum: $MU_R + MU_p$ - what is the sign here?
- Its probably positive, the sum of utilities increases in effect of redistribution
- In a simple setting, utilitarianism prefers equality of income and wealth

Mill on socialism vs. capitalism

- „If, therefore, the choice were to be made between Communism with all its chances, and the present [1852] state of society with all its sufferings and injustices; if the institution of private property necessarily carried with it as a consequence, that the produce of labour should be apportioned as we now see it, almost in an inverse ratio to the labour—the largest portions to those who have never worked at all, the next largest to those whose work is almost nominal, and so in a descending scale, the remuneration dwindling as the work grows harder and more disagreeable, until the most fatiguing and exhausting bodily labour cannot count with certainty on being able to earn even the necessaries of life; if this or Communism were the alternative, all the difficulties, great or small, of Communism would be but as dust in the balance. ”

Mill on socialism vs. capitalism

- Ideal (theoretical) socialism is better than existing capitalism, but reformed capitalism is better even than the ideal socialism.
- Capitalism should be reformed – provision of universal education, limit the population growth, eliminate poverty and reduce inequality.
- Such reformed capitalism is better than ideal socialism, because capitalism assures greater individual freedom and diversity (of opinion, lifestyles etc.) among members of society.

Mill on the concept of stationary state

- „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. I am inclined to believe that it would be, on the whole, a very considerable improvement on our present condition. I confess I am not charmed with the ideal of life held out by those who think that the normal state of human beings is that of struggling to get on; that the trampling, crushing, elbowing, and treading on each other's heels, which form the existing type of social life, are the most desirable lot of human kind, or anything but the disagreeable symptoms of one of the phases of industrial progress.”
- We may suppose, for instance (according to the suggestion thrown out in a former chapter), a limitation of the sum which any one person may acquire by gift or inheritance to the amount sufficient to constitute a moderate independence. Under this twofold influence society would exhibit these leading features: a well-paid and affluent body of labourers; no enormous fortunes, except what were earned and accumulated during a single lifetime; but a much larger body of persons than at present, not only exempt from the coarser toils, but with sufficient leisure, both physical and mental, from mechanical details, to cultivate freely the graces of life, and afford examples of them to the classes less favourably circumstanced for their growth
- 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, and much more likelihood of its being improved, when minds ceased to be engrossed by the art of getting on
- **Under what conditions could this vision work? Is it desirable (economically, ethically)?**

Mill on the concept of stationary state

- Ever-growing economy has several objectionable properties – mainly people are too egoistic, competitive, treat others in a ruthless manner in order to become rich.
- On the other hand (Mill's view), the stationary state could be a highly desirable place to live – people could focus more on non-economic aspects of well-being, spiritual development
- Less materialistic culture develops.

Mill's contributions to economic theory

- *Principles of Political Economy*, 1848
- Thought that Ricardo's economic was too abstract and tried to temper it by an awareness of historically prevailing institutions (i.e. distribution of incomes is governed by market forces, but also by *custom and tradition and connections*).
- Historical-institutional analysis should be complementary to abstract theoretical reasoning in economics.

Mill's specific contributions to economic theory

- Supported Say's Law in the discussion of long-run growth.
- In value theory rejected Ricardo's labour theory of value. Proposed cost of production theory of value instead.
- In international trade theory he analyzed the division of gains from international trade among trading countries. Stated that it depends of the relative strengths of the demands for import in trading countries.
- Later in his life rejected wages fund doctrine (classical theory of wage rate).

Mill on economic policy

- eclectic inspirations;
- his view on economic policy are a mixture of various opinions and he can not be easily classified as an advocate of laissez-faire policy, socialist or a proponent of government interventionism;
- subtle, complex, but ambiguous writer;
- represents a midpoint between classical liberalism and socialism

Detailed analysis of Mill's economic policy

- In 'On Liberty' (1859) claimed that individual freedom is the most important social value (freedom is restricted only by not harming other people),
- He stated:
 - „Laissez-faire, in short, should be general practice, every departure from it, unless required by some great good, is a certain evil”.
 - What this *great good* could be?
- But, in discussion of practical social actions Mill abandoned such strong liberal position and found exception upon exception to the general rule of freedom.
- Classified exceptions from laissez-faire as 'large' and listed 5 classes of justified government interventions in the economy

Exceptions to laissez-faire

- 1) Cases when individuals are not the best judges of their own interest (e.g. education of children)
 - 2) Cases when individuals may not be able to judge future consequences of their actions (e.g. long-term job contracts, divorces)
 - 3) State can intervene in joint-stock companies (corporations) – management can be ineffective
 - 4) State can intervene when coordinated action is required (e.g. in case of reducing time of work for labourers)
 - 5) Regulation of public charity, colonization and supplying some public goods like public roads, lighthouses etc.
- This plus redistribution is much more than justified by other classical economists – Smith, in particular
 - Many exceptions to laissez-faire, and many claim that Mill was a socialist thinker, **so is that true?**

Summary of Mill's economic thought

- Tried to combine classical economics with humanism of social reform to promote the improvement of welfare of the underprivileged
- Distinction between the laws of production and the laws of distribution
- Represents a midpoint between classical liberalism (laissez-faire policy) and socialism in matters of economic policy
- Argued that reformed capitalism is better even than ideal socialism
- Contributed to value theory, international trade theory and theory of wages.