

On the Definition of Political Economy and on the Method of Investigation Proper to It: Reflections on the Bicentennial of the Birth of John Stuart Mill*

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On the occasion of the bicentennial of the birth of John Stuart Mill, the author presents "On the Definition of Political Economy and on the Method of Investigation Proper to It" (1836), a fundamental work of Mill's that anticipates the themes and methods of his more celebrated "Principles of Political Economy" (1848). This is the first work in a series edited by the author whose purpose is to heighten the reading public's familiarity with the "golden moments of economics". It concentrates on "economic man" (homo oeconomicus), a notion that has been the object of countless paeans of praise and fierce critiques in the course of the history of economic thought. The essay focuses on the precise significance that Mill assigned to the concept, which he defined as a logical development, based on the axiomatic method, of a model of economic behaviour in which man obeys only the utilitarian principle of "convenience and enjoyment". Mill himself specifically acknowledge what later free-market "fundamentalists" tended to neglect, namely that this analytical method was adopted not because "any political economist was ever so absurd as to suppose that mankind are really thus constituted, but because this is the mode in which science must necessarily proceed."

1. Purpose of the work

This essay celebrates the bicentennial of a scholar of the greatest intellectual powers and absolutely unique in his nature and for his era. John Stuart Mill worked an admirable synthesis of English empiricism with the principles of individual liberty that were gaining currency during his lifetime and with the nineteenth century's advances in the

* This essay is the first in a *Series* of 18 essays brought out by Luiss University Press in Rome and intended for the non-specialist on the "golden moments" in the history of economics. The series traces the stages in the rise of economic thought from the seventeenth century to the present.

logic of scientific inquiry and in political economy. That century saw the most sweeping transformations in the history of the human race, which John Stuart Mill grasped and incorporated into his analysis. For the first time in history man was considered as the rightful possessor of the sovereignty of the State and of rights of citizenship in his capacity as member of a social organization. At the same time, a significant part of society achieved an improvement in its material conditions, shifting the burden of toil from human muscle to machines.

If I had to name John Stuart Mill's most important work, I would have no hesitation in choosing *Principles of Political Economy*, which was first published in 1848 and can be properly termed a *summa* of the knowledge of economics then attained by the human mind. This celebrated treatise saw seven editions and, so far, no fewer than nine Italian translations. Mill made continual changes to the text right up to the last edition in 1871, two years before his death and contemporaneous with the start of the "marginalist revolution" of Jevons, Menger and Walras that gave birth to neoclassical economics.

Since Mill's *Principles* served as the fundamental text for English economic education until the publication in 1890 of Alfred Marshall's text of the same title offering a synthesis of the classical and neoclassical schools, we can rightly say that the work represents an encyclopedia of the economic science of the entire nineteenth century. There was published, simultaneously with the sixth edition, a low-priced edition "for students" that, in consideration of the circumstances of much of the population, could reach people that would otherwise have been excluded from this branch of knowledge. Thanks to this and to its extreme clarity of exposition, Mill's *Principles* constituted an effective tool for the dissemination of economics, more so than even than Adam Smith's celebrated and widely read *Wealth of Nations* (1776) and the less widely known but no less celebrated *Principles of Political Economy and Taxation* of David Ricardo (1817).¹

¹ In his *Autobiography* (London, Longmans, Green and Dyer, 1873), John Stuart Mill maintained that Ricardo's treatise would never have been published or even written without his father's learning and encouragement, adding that James Mill convinced Ricardo "one or two years later" to overcome his shyness and inability to foster social relations and so to take a seat in the House of Commons. The autobiography was written in 1854, just after Mill's marriage to Harriet Hardy, but was not published until 1873, after

The avowed purpose of this series of publications, however, is not to popularize celebrated works – “books to save” – but the “golden moments” in the history of economic thought, writings that advanced the science of economics. And for John Stuart Mill this moment came much earlier, with an 1836 essay entitled “On the Definition of Political Economy; and On the Method of Philosophical Investigation in That Science.” The work was republished in 1844 with minor revisions, under the title “On the Definition of Political Economy and on the Method of Investigation Proper to It.”² The *Principles of Political Economy* incorporates the definitions and method of inquiry set out in this early essay, which may explain why, unlike the *Principles*, it has not received much special attention, save a few laudable exceptions.

2. Biography

John Stuart Mill was born on 20 May 1806 in Pentonville, a suburb of London, the first child of James Mill and Harriet Burrows. He died on 7 May 1873 in Avignon, where he had lived for many years and where his wife, Harriet Hardy, was buried. Practically from his infancy he was subjected by his father to an educational experiment *sui generis*: to demonstrate that a rigorous, perfectly conceived system of instruction could achieve any desired educational objective. Specifically, young John Stuart was to precede his contemporaries’ knowledge by a quarter-century and become *the* political thinker of his century.

When he was still a child, Britain consolidated its economic supremacy by defeating the challenge mounted by Napoleonic France in the name of that liberty that it had already attained more than a century earlier with the Glorious Revolution and the constitutional Settlement Act that followed

his death. It was edited by Helen Taylor, Harriet Hardy’s daughter by a previous marriage. Of great use to students of the two Mills, the work is more self-analytical than scientific.
² J.S. Mill, “On the Definition of Political Economy; and On the Method of Philosophical Investigation in That Science”, in *London and Westminster Review*, October 1836, pp. 1-29. The citations and comments here are based on the 1844 version, “On the Definition of Political Economy and on the Method of Investigation Proper to It” in *Collected Works of John Stuart Mill*, J.M. Robson (ed.), (Toronto, University of Toronto Press, 1967), pp. 309-339.

it. At the same time, the industrial revolution was advancing. In this climate, the demand for skills was on the increase, and those who could supply them could make their fortune. John Stuart Mill was conscious of living in an age of institutional crisis and transition towards new ideas and new institutions. He worked this knowledge out in scientific terms, borrowing from John Coleridge the concepts of “critical period” and “emerging organic period”. Apart from the inevitable feelings evoked by the memory of his severe upbringing, John Stuart Mill’s examination, in his *Autobiography*, of the life of his father brings out well the conception of the world that guided his philosophical development.

James Mill was a Scottish philosopher, follower of David Hume, disciple of Jeremy Bentham, and friend and collaborator of David Ricardo. By strenuous and rigorous research effort, he produced and published, in 1818, a monumental *History of British India* that brought him a permanent position with the East India Company, the dominant power in that colony, and thus economic prosperity. Having become the principal director of the Company, in 1823 he opened the same path to John Stuart, who succeeded his father in that position and kept it until the Company was taken over by the Crown in 1858 after the Indian Mutiny, which was blamed on the Company’s abuse of power.

James Mill, intent on elevating the family in society and aware of the growing importance of education and scientific knowledge, subjected his son to a severe scholarly discipline out of proportion to his age and perhaps in conflict with any principle of child-rearing. Like his son after him, he held to the notion that the human mind could be moulded at pleasure through instruction. In keeping with the moral teachings of the day, he taught his son to suppress all emotion and to become a machine for thinking, not just for memorizing as in the classic education of the old English cultured classes (whose scions, John Stuart would write, grew up frequently as mere “parroters”). At the age of three he was started on Greek, at eight on Latin, at twelve algebra, geometry and, most intensively owing to his father’s specialty, logic. At sixteen he had already been “trained” as an economist, thanks to lessons from his father in the course of their daily walks together (the only physical exercise, he noted, that he was allowed – but not obliged – to engage in). He would then draft

and correct summaries, always under paternal pressure, to the point of maximum possible perfection. Two years previously he had a lengthy sojourn in France, polishing his French and extending his study of the most important works of philosophy and political economy in that language. This procured him ongoing contacts with the most illustrious thinkers and so enabled him to benefit from France's lively Enlightenment culture as a fertilizer to his world view, to which we shall return.

The astonishing list of readings in Greek, Latin and English that John Stuart Mill sets out in his *Autobiography* is sufficient to explain his avowed passion for history and the breadth of his knowledge, which in his own judgment – but the idea was his father's – gave him “a quarter-century advantage over his contemporaries”. He relates, for instance, that he read Pope's translation of the *Iliad* twenty or thirty times, as well as the original, and also the *Odyssey*. He even attempted a verse translation of the *Iliad* and of some works by Horace. Unfortunately, he himself destroyed these exercises, as he destroyed his notes and reports for his father.

At twenty John Stuart suffered (inevitably?) a nervous breakdown. In the course of the ensuing meditations on his own personal physical and mental health, he saw that the suppression of feelings called for by his father's method ran counter to human nature, and he broadened his interests to the “non-rational” side of Man. To show just how radically he had broken with the “all-rational” model imposed upon him by his father, Mill reported that it had been thanks to his reflections on Wordsworth's poetry that he had recovered his emotions and overcome the severe depression into which he had fallen. The definitive end of depression did not come until four years later, however, when he met Harriet Hardy Taylor, a married woman and an invalid with whom – in the teeth of social convention – he initiated a platonic relationship that would help him both in his work and in his psychological development. He would marry her in 1851, two years after her husband's death. She died in 1858 in Avignon, where Mill himself would be buried at his own request. After her death, Mill would spend a good part of every day at her graveside; her daughter Helen took her place in his life, and in addition to helping him in every-day affairs, she also prepared major unpublished writings for posthumous publication.

The pre- or proto-Victorian climate in which this intense sentimental

and intellectual relationship developed and his introduction to the works of important French and English writers outside his initial circle of thinkers led Mill to see and appreciate the crucial role of social and cultural institutions in the development of the individual. He rejected his father's and Bentham's pessimistic view of human nature and grew more sympathetic to the mounting social protests in England and France and to the method of analyzing these movements. Two personal friendships were instrumental in this change, which was more in the nature of a philosophical broadening of viewpoint than of an outright intellectual metamorphosis: that with John Sterling, a disciple of Coleridge (who as noted had conceived the notion of "critical period" and "organic change"), and that with Gustave d'Eichtahl, a follower of Saint-Simon (one of the founding fathers of socialism) and of Comte, inventor of philosophical positivism. Though intellectually interested in socialism, Mill never abandoned his liberal and *laissez-faire* ideas, but in the view of his most doctrinaire fellow economists he would end up contaminating them with the idea of State intervention. This is an issue to which we shall return.

In those years Mill's work on economic, political and social questions became deeply intensive, but did not always take the form of new publications, as is shown in the excellent University of Toronto edition of his complete works, published and unpublished. Mill came out of his self-imposed intellectual and physical "isolation" in France in 1865 to serve, always intelligently but also combatively (not humble, but neither arrogant, he would note) as a British Member of Parliament. He served just one term, to 1868, and was not re-elected.

John Stuart Mill's most important works on economics began with his "golden moment" in 1836 and ended with the *Principles of Political Economy* in 1848. In between came his famous handbook of methodology, *Systems of Logic* (1843), which was preceded by essays on *Bentham* (1838) and *Coleridge* (1840) and followed by those on *Utilitarianism* (1861), the *Philosophy of Sir William Hamilton* (1861) and *Auguste Comte and Positivism* (1865). In the political sphere, Mill's works range from *On Liberty* (1861) and *Considerations on Representative Government* (1861) to his scathing examination of *The Subjection of Woman* (1869) and the posthumous *Three Essays on*

Religion (1874) and the *Chapter on Socialism* (1879). Just surveying these titles gives us a good idea of the logical, economic and political path that his scholarship took and confirms the social “turmoil” that moved this great intellectual. This turmoil proved to be the essence of his view of political economy, based on man’s innate drive for well-being, which together with the other human urges and the material condition of the planet, gives rise to the institutions of society.³

3. The intellectual environment of Mill’s golden moment

Our list of John Stuart Mill’s principal works suffices to show the close connection between the problems of the day, both old and new, developments in scientific method, and the extraordinary contribution of this thinker to many of the social questions that had arisen, which would ultimately lead to the creation of the welfare state, in which Mill was strongly interested and which was gaining social and political support even in his day. Those same questions have now been posed anew by a process of globalization marked by the growing need for higher-quality “human capital” that can only be had through schooling, vocational training and research.

In seeking to assess Mill’s contribution to economics as such, then, one faces the enormous range of themes and analysis that led *The New Palgrave Dictionary of Economics* to give him two separate entries and Alan Ryan, their author, to describe him as having “constructed an intellectual system which spanned the horizon from the syllogism

³ The purpose of this work is not a critical analysis of John Stuart Mill’s contribution to human understanding but the examination of one specific work, the 1836 *Definition*, albeit supplemented by a brief account of the *Principles*. Accordingly, there is no need to dwell on the works of the numerous scholars who have dissected his thought. An exception to this conclusion, apart from the *Collected Works* cited earlier, is Samuel Hollander, *The Economics of John Stuart Mill*, Vol. I (*Theory and Method*) and Vol. II (*Political Economy*), (Oxford, Blackwell, 1985); and Vol. III (*John Stuart Mill on Economic Theory and Method*), (London, Routledge, 2000).

⁴ “Mill, John Stuart”, on Mill as “philosopher of science” and “Mill, John Stuart as economic theorist” in M. Milgate and P. Newman (eds), *The New Palgrave – A Dictionary of Economics*, (London, MacMillan, 1998), pp. 466-471 and 471-476; the quotation is on p. 466.

to socialism”⁴ – which is to say, from one of the “primordial” elements of logic to one of the key components of modern political thought.

In political economy, John Stuart Mill’s thought advanced beyond that of the triumvirate of pioneering “intellectual giants” – Smith, Ricardo and Malthus – and shaped all subsequent studies of economics, from those of his less celebrated but no less important contemporary William Nassau Senior through the turn-of-the-century works of Marshall to the pioneering neoclassical works of William Stanley Jevons, Carl Menger and Maffeo Pantaleoni; to the “general equilibrium models” of Léon Walras and Vilfredo Pareto or, later, Arthur Pigou and the nascent “welfare economics”. Even a century after his golden moment, Mill’s influence continued to be decisive in the creation of Keynes’s *General Theory* (1936), not to mention, running right down to our own times, those of Jan Patinkin, Piero Sraffa, Paolo Sylos Labini, James Tobin, Franco Modigliani, Milton Friedman, Carl Brunner and Allan Meltzer.

All of Mill’s works certainly help to increase general understanding and knowledge. But one in particular can be considered to be a cut above the others. And that is the work that constitutes his golden moment in the scale of economic thought: the “*Definition*” of the subject and method of study of “political economy”. This essay bequeathed to the literature the figure of the optimizing rationalist, or “*homo oeconomicus*”.

4. The concept of “homo oeconomicus” and its limits

Mill himself did not use the term *homo oeconomicus* but the plain English “economic man”. The Latin was the handiwork of some erudite but nameless scholar. Nor, as he clearly stated in his 1836 *Definition*, did Mill ever imagine or contend that such a man could actually exist. When the Latin term was proposed, and by whom, has never been established, but its evident effect was to take Mill’s concept to the extreme and make it the banner of the fundamentalist, *laissez-faire* “ideology” hostile to all kind of State intervention. It could even be that the Latin antedates Mill, since its English equivalent is found in an essay by William Nassau Senior in that same year.

It was reworked by John Elliott Cairnes in 1875 and again in an 1891 essay by John Neville Keynes, the father of John Maynard, and has thus come to be known in the literature as the "Senior-Mill-Cairnes" model.⁵

The notion of man as intent solely, and in completely rational fashion, on procuring wealth in society was put to uses far beyond Mill's exclusively theoretical purpose of isolating political economy from the other moral sciences or, to be exact, examining economic behaviour as distinct from behaviour determined by other individual and social motivations. The same can be said of the concept of "law" in economics, of which Mill makes abundant use. It, too, was taken to extremes – both as an analytical tool and as an operative precept – by some economists who claimed that economic laws may be "iron" or "golden" (terms that recur frequently enough in this literature), i.e. logically sound and immutable, in contrast with the logic of scientific inquiry proper to Mill. What Mill sought was to discover certain "logical sequences" in the rational behaviour of the individual in society, isolating them from the rest of human behaviour; but he never claimed that, if they could be discovered, they had the characteristic of "truth" as the notion is commonly understood; much less that they were immutable.

Like the utilitarian philosophy he inherited from his father, Mill defined as rational conduct that directed to securing "convenience and enjoyment". To be precise, Mill says that "Political Economy considers mankind as occupied solely in acquiring and consuming wealth". But he adds: "not that any political economist was ever so absurd as to suppose that mankind are really thus constituted, but because this is the mode in which science must necessarily proceed" in considering his actions. So "Man, who, considered as a being having a moral or mental nature, is the subject-matter of all the moral sciences, may, with reference to that part of his nature, form the subject of philosophical inquiry under several distinct hypotheses."

The need to isolate mankind's economically rational behaviour thus

⁵ The three essays cited are William Nassau Senior, *An Outline of the Science of Political Economy* (1836); John Elliott Cairnes, *The Character and Logical Method of Political Economy* (1875); and John Neville Keynes, *The Scope and Method of Political Economy* (1891). The concept of "economic man" is treated extensively in Mark Blaug, *Methodology of Economics* (Cambridge, Cambridge University Press, 1980).

justifies *homo oeconomicus* as a theoretical but not as a practical construct. According to Mill, the postulation of this theoretical figure is the only way to seek out the “laws of political economy” in the sense he proposes for them. He himself notes that the resort to this device is “arbitrary”, in that it presuppose a “definition of man, as a being who invariably does that by which he may obtain the greatest amount of necessaries, conveniences, and luxuries, with the smallest quantity of labour and physical self-denial with which they can be obtained in the existing state of knowledge.” Mill sees that there are countless exceptions to man’s economically rational action, but he does not consider these to be the subject of political economy. For him, “economic man” is merely an analytical tool, not a political objective. The distorted concept of “economic man” is a detrimental legacy from that age, which led Frederik von Hayek to call it a heavy burden on the spread of *laissez-faire* philosophy.

5. The first logical stage in the golden moment: the definition of political economy

We know that John Stuart Mill wrote and published his essay in 1836 to rebut Thomas Babington Macaulay’s critique directed at the core of Ricardo’s economic theory, i.e. his analysis of the distribution of income between capital and labour; but the purpose was also and, perhaps above all, to counter the dominant deductive method in the moral sciences, and in political economy in particular.

To begin with, Mill focuses on the object of inquiry, saying that “Like other sciences, Political Economy has remained destitute of a definition framed on strictly logical principles.” He advances his proposed definition in a series of stages. First comes the definition implicit in Smith’s *Wealth of Nations*, which Mill phrases thus: “Political Economy is a science which teaches, or professes to teach, in what manner a nation may be made rich.” However, he admits that “The definition most generally received among instructed persons” is to the effect that “Political Economy informs us of the laws which regulate the production, distribution, and consumption of wealth.”

After reaffirming and explaining why political economy is a science, i.e. the search for theoretical connections, whereas practical experience of economic activity is an art, i.e. a set of rules for taking or refraining from certain actions, and having specified that "The term wealth ... is defined [as] all objects useful or agreeable to mankind, except such as can be obtained in indefinite quantity without labour," Mill finally advances his own "correct and complete definition of Political Economy: The science which treats of the production and distribution of wealth, so far as they depend upon the laws of human nature." He goes on, however, to specify what he means by "depend upon the laws of human nature" in the assertion that "Political Economy does not treat of the production and distribution of wealth in all states of mankind, but only in what is termed the social state." The subject, in the end, is economic conduct insofar as it depends not upon "all the laws of human nature" but only "upon a certain portion" of them, that is those that relate to the pursuit of convenience and enjoyment within society.

According to Mill, human nature can be examined from other points of view and based on any number of hypotheses, such as the "*affections*, the *conscience*, or feeling of duty, and the love of *approbation*". But political economy identifies the laws of human nature that govern a man who acts, according to nature, to pursue his economic interest in a social framework. Economics is thus a branch of social science "which may be aptly designated from the title of *social economy*; somewhat less happily by that of *speculative politics*, or the *science* of politics, as contradistinguished by art".

This very precise bounding and situating of political economy within the social realm casts further light, if any were needed, on the error of transforming Mill's methodological postulate into a political figure such as *homo oeconomicus*. This taking the concept to extremes is more closely related to that current of thought which examines the individual in isolation from society, known as "Robinson Crusoe economics". Such a situation is diametrically opposed to that posited by Mill (which, by the way, justifies his insistence on the epithetical "political" for economy, often said to be superfluous).

6. The second logical stage in Mill's golden moment: the analytical method in the social sciences

Having defined the object of study, Mill dwells on the “philosophic method” of political economy, the “nature of the process by which its investigations are to be carried on, its truths to be arrived at”. The essay devotes almost as much space to indicating the method of inquiry as to defining its object. Let us recall that Mill's own intellectual training had started out from the logic of scientific research and then focused on the problems of the economy, politics and society, thus proceeding in the opposite direction from the one he follows in the essay.

A passage of the 1836 essay clarifies Mill's methodological proposal: “But we go farther than to affirm that the method *à priori* is a legitimate mode of philosophical investigation in the moral sciences: we contend that it is the only mode. We affirm that the method *à posteriori*, or that of specific experience, is altogether inefficacious in those sciences, as a means of arriving at any considerable body of valuable truth; though it admits of being usefully applied in aid of the method *à priori*, and even forms an indispensable supplement to it.” Further on, he affirms that “Since, therefore, it is vain to hope that truth can be arrived at, either in Political Economy or in any other department of the social sciences, while we look at the facts in the concrete, clothed in all the complexity with which nature has surrounded them, and endeavour to elicit a general law by a process of induction from a comparison of details; there remains no other method than the *à priori* one, or that of ‘abstract speculation’”.

The cast of Mill's economic reasoning rejects intuitionism – reliance on insight or, more commonly, “scent”, what was later ironically dubbed “noseometrics” – and falls in the field of logical empiricism, remaining rooted in reality but through a process of abstraction (theorization). Reflecting the contemporary debate on these issues, Mill observes that “There are, on social and political questions, two kinds of reasoners: there is one portion who term themselves practical men, and call the others theorists” with the intent of disparaging their heuristic abilities. In Mill's view, not only is this accusation unfounded but it can be turned around: good theorists have greater power to explain reality than practical

men, while the latter's decisions inevitably, often unwittingly, incorporate a theoretical component.

The model proposed by Mill is a mixture of reasoning from assumed hypotheses and induction, but with hypotheses also derived from observation and with practical tests that can never be considered definitive. Lines of reasoning are developed starting from theoretical hypotheses based on pure ratiocination or on observations which, with appropriate logical treatment, lead to the formulation of "economic laws". These remain nonetheless abstract, i.e. valid (if they are valid) inasmuch as they rest on a foundation of rigorous logic. These results are then applied to reality, to verify whether they explain actual economic behaviour or, instead, need to be supplemented with additional hypotheses and logical checks, owing to the existence of multiple causes and the thinker's inability immediately to apprehend their complexity. This procedure can be likened to a parabolic path to the acquisition of knowledge that starts from below, with observation but also with the products of the mind, moves upwards into the realm of logic and then descends again into reality in order to verify whether theory explains experience (and here we have the gist of the logical empiricism mentioned earlier); if the first round does not yield the expected results, a second round ensues. This method can even be stretched to attempt predictions of future behaviour, provided, Mill cautions, one is aware of theory's intrinsic limits due to multiple causation and uncertainty about the replicability of conditions.

Political economists would be placing themselves in the wrong, says Mill, if they denied that "The conclusions of Political Economy, ... like those of geometry, are only true, as the common phrase is, *in the abstract*; that is, they are only true under certain suppositions, in which none but general causes – causes common to the *whole class* of cases under consideration – are taken into account." For, he continues, "That which is true in the abstract is always true in the concrete with proper *allowances*." The most suitable hypothesis is surely that the relations (or laws) assumed by theory are duplicated in reality, with the above-mentioned logical reservation: an observed phenomenon can be an effect of "a concurrence of causes, and it frequently happens that several of

these causes belong to different sciences” of which the specialist in political economy has very little knowledge. “If the knowledge of what are the particular causes operating in any given instance were revealed to us by infallible authority, then, if our abstract science were perfect, we should become prophets”, but a completely accurate knowledge of the actual workings of reality is not to be had, he concludes.

With Mill’s methodological proposal we have the birth of the “axiomatization” of political economy, the formulation of explanatory or theoretical models of human behaviour whose validity hinges on the use of hypotheses (axioms) from which “logical consequences” are drawn by adopting rigorous languages (such as mathematics, a language subsequently pressed into widespread service by economists). The popularity of these models in economics – but not only in economics – has led to the quip that for economists reality is but one of the possible cases, and often not the most interesting one at that. But facile irony aside, it is necessary to reflect on the vanity of the quest for truth in the social sciences through experiment leading to an “acid test”, what the English pioneer of the inductive method, Francis Bacon, cited by Mills, called an *experimentum crucis*. A crucial experiment can seldom be done in the social sciences, Mill observes, “owing to the immense multitude of the influencing circumstances and our very scanty means of varying the experiment. ... In how much greater a degree must this difficulty exist in the affairs of states, where even the *number* of recorded experiments is so scanty in comparison with the variety and multitude of the circumstances concerned in each. How, for example, can we obtain a crucial experiment on the effect of a restrictive commercial policy upon national wealth?”

This analytical method leads us, as it led Mill in his 1836 essay and in his *System of Logic*, to enter into the Kantian dispute between “pure reason” and “practical reason”, descendant of the controversy over the course of millennia between metaphysics and physics (or “nature” in the terminology of Greek philosophy) and progenitor of the lively argument between intuitionists and empiricists in nineteenth-century English thought. Primarily in two writings on Hamilton and Coleridge, Mill sided against the former’s intuitionism and with the latter’s empiricism. Yet he

stood apart from the empiricists of his day in that he accepted hypotheses deriving from the products of the mind as well as from observation.

Ultimately, it is with reality that an economist must come to grips, because people expect him to understand it, explain it and offer the recipe for bending it to man's will. Accordingly, the test will always be between the logical results as described by Mill and the practical results that can be obtained when they are applied to understanding and mastering reality, bearing in mind Mill's warning, however, that "it is vain to hope that truth can be arrived at". Since Mill, economists have made abundant use of the possibility of generating hypotheses derived solely from the products of the human mind, whether one calls this meta-economics or imagination or ingenuity (which in some respects are the same thing).

The breadth of the logical arguments that Mill develops and his habit of denying and then admitting, or admitting and then denying, make it arduous for the ordinary reader to find his way. It may therefore be of some use to conclude this brief examination of Mill's methodological proposal by emphasizing the relativism that distinguishes his thinking. A staunch empiricist, Mill did not hesitate to propound the axiomatization of the economy as a logical category belonging to inductivism, though without accepting all of its philosophical principles, nor did he deny the usefulness of the deductive approach for selecting observations and employing them as *a priori* hypotheses. Though a steadfast follower of utilitarianism, elevating it to a moral value for the individual and for the whole of society, he maintained that it held scope for political idealism, more specifically for socialism. With the tide of democracy advancing, though he shared its animating spirit, Mill – like Alexis de Tocqueville in *Democracy in America*, a work with which he was familiar – also warned his contemporaries of the dangers that democracy could pose for individual liberties. In an age in which religion was losing its hold, he submitted that belief in something that transcended the life of man was necessary both to man and to society. Though a resolute economic liberal, he argued for State intervention, without, however, advocating Keynesian-style full-employment policies.

In conclusion, a verdict that Mill's thinking is ill-constructed misses

the point, which is that the rich texture and fascinating quality of his scientific works derive precisely from his logical relativism, which never degenerates into eclecticism.

7. From the 1836 essay to the *Principles*: the separation of political economy from the moral sciences

Disputes on the method of scientific inquiry began thousands of years ago and carry on to today, but one must not forget that in the last analysis the subject of the 1836 essay is the transformation of political economy from a moral science (or a “psychological” science, as Mill calls it) into a science that considers that part of human activity in society which is motivated by convenience (and enjoyment, he adds), in other words inspired by the principle of utility. Mill achieves this by applying his two interpretative paradigms – the field of inquiry of political economy and the theoretical lens with which to read reality – to the economic knowledge of the day.

The result, further perfected by Mill in his *System of Logic* of 1843, is the treatise on the *Principles of Political Economy*. Examining this work – great in every sense – corroborates our choice of the 1836 essay and not the more celebrated treatise as the golden moment of Mill’s scientific output. Moreover, it corroborates the fact that Mill had never suggested that men in society should behave in purely rational ways with a view to minimizing costs and maximizing returns, and confirms that his analysis of such behaviour in isolation from the rest of human behaviour was a means to comprehend the laws of the economy and then apply them, suitably formulated, to an investigation of the more complex activities of men in society.

Mill devotes whole chapters of the *Principles* to investigating the social problems of the era, importing arguments drawn from his methodological approach to political economy. Although he had set forth the view that non-economic behaviours were properly the province of other social sciences, he delves into them nevertheless, skilfully coordinating these new findings with those of his analysis of strictly economic aspects. This validates the thesis of some scholars that Mill is not a “pure liberal” because his vision of man gives great weight to social motivations beyond the

purely rational or economic. This is a correct interpretation of Mill's thought. However, we consider the point it raises not so much a criticism as a matter on which those who profess themselves pure liberals should also reflect. That is, it sheds light not on a defect but on a virtue of Mill's contribution to economics and political analysis.

It should be clarified that Mill was not the first to propose separating the study and teaching of political economy from the other moral sciences, the realm in which he had matured and progressed and ultimately remained enmeshed, but only a tenacious advocate of their separation on the plane of logical analysis. In fact, the first independent chair of political economy, the Drummond Chair, had already been established by Oxford University at the initiative of the "Oriental School" – named after Oriental College – and awarded to Nassau Senior. At Cambridge the dispute lasted longer, owing to the opposition of the moral philosopher Henry Sidgwick, but the economist Marshall eventually won out. All this goes for Great Britain, because in Italy, in Naples to be precise, the step had already been taken and the chair awarded to Antonio Genovesi, without the "turmoil" later attendant to the event in what is wrongly considered the only cradle of economics, as Oscar Nuccio demonstrates with plentiful detail in his history of the Italian contribution to economic theory⁶.

After propounding the independence of economics from the moral sciences, Mill himself initiates that reconstruction of the unity of interpretation of human action (religious, juridical, psychological, social, and from every other possible angle) which in the twentieth century would be attempted by a host of illustrious scholars, including the economist Ludwig von Mises, the behavioural psychologist B.F. Skinner and the political philosopher Herbert Marcuse.

In order to introduce readers to the idea of "pure" economic rationality and help them comprehend the travail of the separation of economics from the moral sciences, it is necessary to recall that the path of logic Mill travelled to arrive at the concept of *homo oeconomicus* radiated from the utilitarian theory of Jeremy Bentham. In his work on *Utilitarianism*, published in

⁶ See Oscar Nuccio, *Il pensiero economico in Italia (1050-1750)*, 7 vols., edited by Mediocredito Centrale, Roma 2005. An abridged version in English is forthcoming.

1863, Mill examines the substance of that theory more fully than in the *Principles of Political Economy*, where the concept is applied more than argued. Utilitarianism holds that human action is motivated by the pursuit of the maximum individual utility, and that this ensures the optimal, “economical” use of scarce resources. Wedding the principle of utility with that of liberty, Mill completes the span of his conception of social life, setting it in the context of his analysis of classical thinking on all economic matters: production and exchange, the markets in labour and capital (the two factors of production), money, rent and profit, competition and oligopoly, income distribution, the workers’ social conditions, the role of government. His analysis of the role of supply, demand and prices offers logical justification for the idea, expressed by some scholars, that Mill inspired the neoclassical theory that emerged with the “marginalist revolution” of Jevons, Menger and Walras. While this may overstate the case, as we believe, Mill’s contribution undoubtedly was a bridge (or better, cultural turning-point) between classical and neoclassical theory.

If one is to appreciate the importance of this complex endeavour, it is best to begin with Mill’s own “Preliminary Remarks” prefacing the *Principles*. He starts out from the definition of political economy formulated in the 1836 essay, affirming that “the laws of Production and Distribution, and some of the practical consequences deducible from them, are the subject of the following treatise”. He proposes, then, to expound the theories (laws) of the economy and their practical implications for rational action. Reaffirming his pedagogical intention, he sets forth the thesis, formulated in his golden moment, that political economy is a branch of the social sciences that considers the ways in which men engage in the pursuit of wealth rationally (i.e. by minimizing costs) in a social environment that encompasses other motivations studied by other sciences. Mill puts it thus: “All know that it is one thing to be rich, another thing to be enlightened, or humane; that the questions how one nation is made wealthy, and how it is made free, or virtuous, or eminent in literature, in the fine arts, in arms, or in polity, are totally distinct enquiries. Those things, indeed, are all indirectly connected, and react upon one another. A people has sometimes become free, because it had first grown wealthy; or wealthy, because it had first become free. The creed and laws of a people act powerfully upon

their economical condition; and this again, by its influence on their mental development and social relations, reacts upon their creed and laws. But though the subjects are in very close contact, they are essentially different, and have never been supposed to be otherwise."

This interpretative key is repeated in the treatise's five books, divided into 73 chapters and 348 sections, extending to nearly a thousand pages in the seventh edition of 1871. Starting out from the theory of production, Mill arrives at an analysis of the role of the government in the economy, by way of the theories of the distribution and exchange of wealth and the influences of economic phenomena on the progress of society. The text is laden with social philosophy. Without denying the breadth and depth of the economic analysis presented, the space Mill devotes to social problems and the importance of those issues suggest that what Mill produced was a socio-political manual rather than a treatise strictly on economics. This is further proof that Mill was not a prophet of utilitarianism, but an influential ideologist of the new political and social order that was taking shape in the United Kingdom.

In his exposition, Mill admits he is labouring in the shadow of Smith's famous work, which, with characteristic severity, he declares "is in many parts obsolete, and in all, imperfect". Although he does not offer specific explanations for these two charges, it is well known that Mill rejected the idea that economic harmony could be achieved through the unbridled working of free enterprise (the "invisible hand") and accused Smith of failing to extricate the economy completely from the clutches of the moral sciences.

If these accusations appear harsh, let us remember that Mill's father had intended to make his son into a thinking machine capable of surpassing all his contemporaries and had succeeded rather well. John Stuart Mill exercised his powers in many ways: by simply looking around, by studying the works of earlier thinkers, by drawing on his stock of logical knowledge and by inquiring into the lessons deriving from the changes being wrought by the industrial revolution. He brought his acute intellect to bear to revise economic thinking in the light of the new economic, political and social conditions that had not yet fully formed at the time when Smith wrote *The Wealth of Nations*.

In the part of the treatise most directly concerned with the world of labour Mill offers a brief critique of Marx's communism, disputing its diagnosis of the problems and its proposed cures, but not stigmatizing it completely. Lengthier and less disputatious is his treatment of socialism, both when he explicitly examines the ideas of Fourier and Saint-Simon and when he probes the problems of labour and the workers, including the then-burning issues of the legalization of trade unions – relatively recent in Britain – and the admissibility of slavery. He introduces the concept of “a right distribution” of the output of labour and affirms that trade unions are useful because they impede an iniquitous competition, protecting workers from the overweening power of the owners of land and the means of production.

Mill challenges the notion that slaves themselves are a form of wealth. Wealth is what they produce, he says. The wealth of a nation does not vary depending on whether men live in a state of slavery or liberty. Mill affirmed this in spite of the fact that he was a director of the all-powerful East India Company, which practised widespread exploitation of labour in a colonial institutional environment, with all the limitations on freedom that this implied. As he testified, both he and his father harboured strong doubts about the ethical nature of the Company's privileges and its conduct in India.

Following Fourier, Mill openly advocates the cooperative organization of production, what today we would call a “third way” between capitalism and socialism.⁷

Better institutions providing more liberty and welfare for working people were desirable, Mill averred. Yet he thought that the workers' future depended “on their own mental cultivation”, a point of great topicality today for the advanced countries and one that also serves as a warning for the part of the world now embarking on development.

We can imagine the reception this thesis was accorded by the ruling

⁷ Charles Fourier (1772-1837), a social philosopher and member of Napoleon's entourage (despite their tense relations), described the social and economic organization of *Phalanstère*, a utopian city where social harmony is attained not through the working of Smith's invisible hand, in the unrestrained quest for maximum individual satisfaction, giving vent to egoism and legitimating it morally, but rather through the cooperative organization of production, where egoism and altruism find a synthesis in the common interest of achieving the maximum social satisfaction, permitting individual satisfaction to be maximized in turn.

classes of Victorian England, who owed a substantial part of their well-being to exploiting workers and a vast colonial empire. In fact, there is evidence that the wealthy classes, while recognizing his penetrating scholarship, did not appreciate his radicalism.

On the role of the State, Mill admits that it is the duty of government to supply the goods and services that private businesses do not produce. Almost a century before Keynes (and others pursuing the same line of thought), Mill thus raises the possibility of public intervention not limited to the production of public goods (i.e., collective goods, such as infrastructures), but extending to every kind of investment not done “for foolishness” of the private whim. This does not take us all the way to Knut Wicksell’s theory of underemployment and the need to combat it, or to the full-employment policies of the Polish economist Michael Kalecki and the more popular policies of Keynes, but it takes us very close. In this sense, as an economist, Mill is not a proponent of *laissez-faire* but only of liberal ideas, as is shown in particular by his analysis on Ch. XI-Book V “Of the Grounds and Limits of Laissez-faire or Non-Interference Principles”. He does not agree with the motto “*laissez faire, laissez passer*” that businessmen are said to have suggested to Turgot, which became the manifesto of the most radical doctrine. He agrees instead with the idea that “competition may not be the best conceived stimulus, but it is at present a necessary one, and no one can foresee the time when it will not be indispensable to progress”⁸. Testimony to this is offered by Keynes in his essay *The End of Laissez-faire* (1926), in which he states that “Economists no longer have any link with the theological or political philosophies out of which the dogma of Social Harmony was born, and their scientific analysis leads them to no such conclusions”, and traces this important cultural change back to John Stuart Mill.⁹

This brings us to the question of why Mill now excludes the theory of

⁸ Mill calls Turgot, finance minister in France in the 1770s, “the most memorable example in modern time”, according to his own definition of “a man who united the spirit of philosophy with the pursuits of active life, and kept wholly clear from partialities and prejudices both of the student and of the practical statesman”.

⁹ John Maynard Keynes, *The End of Laissez-faire*, (London, Leonard & Virginia Woolf at Hogart Press, 1926), pp. 25-26.

consumption from the subject-matter of political economy, recalling that with his previous inclusion of it he had corrected the standard definition offered by contemporary economists. The reason is that he incorporates the theory of consumption in the theory of exchange, which, for him, coincides with the economic theory of value and is thus encompassed in the theory of income distribution, a matter coming to the fore in economic studies and policy-making after the debate opened by Ricardo and Marx.

If a simplified contrast were possible between the ideas of the classical school and those of the marginalist (or neoclassical) school, it could be found to consist mainly in the different conception of value. The former holds that the value of a good is given by the labour incorporated in it, with profit constituting a surplus (surplus value or surplus labour), the latter that value is given by the utility the individual assigns to the desired good. The shift from wages to utility creates the dichotomy between exchange value (the market price) and use value (the value each individual attributes to a good on the basis of his preferences).

These distinctions are still the subject of hot theoretical disputes, which, far from achieving the desired convergence of opinions, have produced numerous strands of economic thought and accentuated the divergences of interpretation. The real progress of modern economics lies in its having abandoned the attempt to define the value of a good and gone on to examine the forms of the market (competitive, oligopolistic, monopolistic) as decisive for price formation.

Employing concepts now outdated on the logical plane, Mill analyzes the different ideas of value then in vogue: use value, exchange value and price. In his view, use value turns on the concept of utility, exchange value on that of purchasing power. "The word value, when used without adjunct, always means, in political economy, value in exchange" (or – Mill adds confirming his nature of polemist – "as it has been called by Adam Smith and his successors, exchangeable value, a phrase which no amount of authority that can be quoted for it can make other than bad English"), and is not to be confused with the price, which for Mill is the value of a good expressed in money. A greater or lesser supply of a good modifies its exchange value, but not its use value, which is connected with psychological factors that vary from individual to individual. The

price can vary in relation to the quantity of money, supply of the good being given. In conclusion, for Mill the use value of a good is a personal valuation (he cites the case of diamonds, differently valued from person to person), while its exchange value depends instead on its scarcity with respect to demand; its price is the monetary expression of its exchange value and also depends on the quantity of money. The penetrating quality of Mill's analysis of value and the other matters treated in the *Principles* stands out in even sharper relief when we consider that Mill was clearly aware of the role of expectations as generators of cycles that could alter the price system along with every other economic variable.

Economics has advanced beyond this in its knowledge of prices, although the theses formulated by Mills are so deeply inscribed in economists' DNA that they periodically emerge in their writings, albeit in somewhat "updated" terms. In more recent times, the concept of exchange value has been almost totally absorbed by that of price, which Mill insisted should, instead, be kept distinct. The price of a good is considered the result of the conditions in which its demand and supply are expressed, i.e. the institutional characteristics of the market (monopoly, oligopoly and different forms of competition) and the quantity of money in circulation domestically and internationally, i.e. the practical conditions, real and monetary, in which exchanges take place. But the true innovation in modern times with respect to the treatment of the problem in Mill's day, one fully reflected in Mill's analysis, lies elsewhere. The great advance consists in the fact that economic research has abandoned the concept of value, after long exploring its possible aspects, starting from utility and going on to "indifference curves" and their refinement in the concept of "ophelimity", put forward by Vilfredo Pareto (who, by the way, introduced a distinction in utility between marginal doses and total quantities of satisfaction).

On the logical plane, the theory of value is closely akin to the theory of the distribution of wealth (and income), which Mill traces out, rejecting the direct relation between wages and prices postulated by Smith and embracing Ricardo's position that an increase in the wage rate reduces the profit rate, an idea from which Marx drew his thesis of the inevitable collapse of capitalism. Without adventuring any further into this

treacherous terrain, still a matter of dispute in the literature, we merely remark that Mill's contribution in this field is rather modest. As Ryan suggests in his profile, it consists in defining labour costs to include the profit of manager-capitalists and in making the inverse relation between wages and profits depend also on capital intensity and population.¹⁰ Ultimately, however, in Mill the problem of distribution is traced back to the mechanism of price determination and thus to the theory of value, with all the analytical complications mentioned above.

8. The role of government: ensuring liberty and growth

In the century and more that has passed since his death, John Stuart Mill's cultural legacy has borne fruit amidst the dramatic events of history and the advances achieved by research methodology and economic studies. Despite the brevity of this analysis, we believe it has been sufficient to bring into focus the figure of an intellectual of great stature and complexity; not the prophet of utilitarianism, as his father desired, but the prophet of the individual's knowledge, liberty and welfare.

And so there can be no better way to conclude our examination of Mill's "golden moment" and his application of it in political economy than to quote the long, final paragraph of the *Principles*, a passage of burning relevance today and, in some respects, eternally:

"I have not thought it necessary here to insist on that part of the functions of government which all admit to be indispensable, the function of prohibiting and punishing such conduct on the part of individuals in the exercise of their freedom, as is clearly injurious to other persons, whether the case be one of force, fraud, or negligence. Even in the best state which society has yet reached, it is lamentable to think how great a proportion of

¹⁰ See "Mill, John Stuart, as economic theorist", II. Mill on value and distribution, pp. 472-473. Mill agreed with Malthus about the need to control population growth. He was also an activist for the cause, even spending a day in prison for distributing leaflets in favour of birth control. Half a century later, when funds were being collected for the erection of a statue in Mill's memory, Prime Minister Gladstone withdrew his support from the initiative upon learning of that event.

all the efforts and talents in the world are employed in merely neutralizing one another. It is the proper end of government to reduce this wretched waste to the smallest possible amount, by taking such measures as shall cause the energies now spent by mankind in injuring one another, or in protecting themselves against injury, to be turned to the legitimate employment of the human faculties, that of compelling the powers of nature to be more and more subservient to physical and moral good”.

When these moving, farsighted words were written, history had not yet witnessed the bloodshed of two world wars and, between them, a no less violent Great Depression, which historians ascribe to the inability of economists to read the reality of production and money through a theoretical lens that would have made it possible to prevent or solve the market’s “failures”. In the light of all this, Mill’s words may strike us as naive, remote from that portion of human nature that does not follow rational schemata; and indeed there is little rationality in men killing and being killed in war and letting themselves be dragged down by bankrupt economic and monetary management. But they seem less ingenuous if we consider other dimensions of human behaviour in society – such as violence and ignorance – that received discerning treatment in Mill’s writings. Mill warned that if these dimensions came to dominate the sphere of interest proper to political economy, world affairs would go badly, as in fact they often have.

Nonetheless, the progress made, as Mill had hoped, towards assigning due weight to man’s rational or economic dimension and his freedom of action have made it possible to advance towards greater well-being and its diffusion in the world. The elimination of the barriers to the movement of goods and capital is an important example, although much remains to be done to harness globalization in the service of humanity. In Italy, in Europe, and throughout the Planet.

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