

Mill's Normative Economics

Gerald Gaus

<A> Is normative economics an independent field for Mill?

Contemporary economics is divided as to just what is “normative economics,” and whether it has an important role in economic science (Caplan and Schotter, 2008). As has often been noted, the modern ambivalence toward normative recommendations in economics was not shared by the classical tradition in political economy; indeed, the very idea of “political economy,” as opposed to the modern term “economics,” indicates that the analysis of economic systems, the “science of legislation,” and policy recommendations are all intimately intertwined (Robbins, 1977: 1). For the classical political economists such as Adam Smith and David Ricardo, one cannot engage in economic inquiry without dealing with politics and policy.¹ Although John Stuart Mill was certainly a classical economist, in some ways his is a bit closer to the modern view; the full title of his great treatise on political economy is *The Principles of Political Economy with Some of Their Applications to Social Philosophy*, suggesting a more systematic distinction between positive analysis and the normative questions of social philosophy than was characteristic of earlier writers. One can read Mill as maintaining that political economy — the analysis of politico-economic systems — is one thing, while questions of how society ought to be arranged is another, a matter of social philosophy; *The Principles* is engaged in both, but they are not necessarily inseparable.

Two distinctions advanced by Mill have led many to see a somewhat surprising “modern” independence of his normative economics from other elements of his system. On the one hand, Mill advances his famous (to some, infamous) distinction between the laws of production and distribution (see Vallier, 2010):

The laws and conditions of the production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them.... It is not so with the Distribution of Wealth. That is a matter of human institution solely. The things once there, mankind, individually or collectively, can do with them as they like. They can place them at the disposal of whomsoever they please, and on whatever terms (*Principles, CW, II, 199*).

At least on the face of it, this distinction seems to free normative thought about distributive justice from the constraints of the economics of production; if distribution is up to society and does not follow from the requirements of production, it looks as if thinking about distributive justice is cut free from the core of positive economics. Let us call this Mill's *positive/normative distinction in economics*; the laws of production concern immutable economic science while the laws of distribution are about a society's understanding of justice (Blaug, 173).

While the first distinction seems to free normative economics from positive economics, the second seems to sever Mill's analysis of the case for economic liberty from his famous doctrine of personal freedom. Mill insists in *Liberty* that:

trade is a social act. Whoever undertakes to sell any description of goods to the public, does what affects the interest of other persons, and of society in general; and thus his conduct, in principle, comes within the jurisdiction of society: accordingly, it was once held to be the duty of governments, in all cases which were considered of importance, to fix prices, and regulate the processes of manufacture. But it is now recognised, though not till after a long struggle, that both the cheapness and the good quality of commodities are most effectually provided for by leaving the producers and sellers perfectly free, under the sole check of equal freedom to the buyers for supplying themselves elsewhere. This is the so-called doctrine of Free Trade, which rests on grounds different from, though equally solid with, the principle of individual liberty asserted in this

Essay (*Liberty*, CW, XVIII, 293).

Jonathan Riley cites this passage, stressing that Mill's defense of "laissez-faire"² is based simply on judgments of the general welfare (1998: 316ff). Thus it also seems that Mill advances the *distinction between the normative status of civil and economic liberty*, a view characteristic of the "new liberalism" of the twentieth century, which emphasized the coherence of personal freedom and economic regulation (Hobhouse, 1911, chaps. 4 and 7; for a criticism, see Tomasi, 2012, chap. 2).

At least at first glance, Mill's normative economics thus appears independent of his positive economics of production and his liberal normative political philosophy of liberty. If this is correct, then we might wonder whether Mill is truly a classical liberal and classical political economist; perhaps, as many have thought, he is better interpreted as a proto "new liberal" (Roll, 1973, 360), stressing normative distributive issues and downplaying economic liberty. In this chapter I seek to show why we should reject this *prima facie* plausible interpretation by calling into question both the sharp distinctions between production and distribution, and economic and civil liberty. Following Robbins (1952), I argue that Mill is firmly rooted in the classical tradition of political economy and, indeed, that throughout his social thought his primary value is liberty.

<A> The sharp positive/normative distinction questioned

 The laws of production and distribution

As Mark Blaug (1996, 173) emphasizes, if Mill's distinction between the laws of production and distribution (in the above passage) is taken out of context to imply that production and its distribution are entirely independent, it is untenable. That production would not be affected by the scheme of distributive shares would imply that incentives and resources were irrelevant to production: regardless of the distribution of rewards and resources, productive decisions would be invariant.

Mill, though, almost immediately takes care to reject such an interpretation:

We have here to consider, not the causes, but the consequences, of the rules according to which wealth may be distributed. *Those, at least, are as little arbitrary, and have as much the character of physical laws, as the laws of production.* Human beings can control their own acts, but not the consequences of their acts, either to themselves or to others. Society can subject the distribution of wealth to whatever rules it thinks best: but what practical results will flow from the operation of those rules, must be discovered, like any other physical or mental truths, by observation and reasoning (*Principles*, CW, II, 200, emphasis added).

The point, then, is that while the analysis of production — the relation between capital and labor inputs — does not in itself imply a distributive scheme and so societies can choose to implement diverse distributive arrangements — there are “feedback” effects from distributive schemes to the factors of production, which affects how they are employed. And the analysis of these feedbacks will search for “physical and mental” truths — matters of positive science. Consequently, when normative economics considers alternative distributive arrangements, it must rely on positive economics’ understanding of how shares and incentives will alter the inputs into the productive process.

This much is clear, even if we focus simply on Mill’s explicit analysis of the laws of production and distribution in Book II of *Principles*. As Samuel Hollander (1985, 344-50) points out, however, the entire distinction becomes much more puzzling once we turn to Book III, on Exchange. After an extensive analysis of the pros and cons of different distributive arrangements, Mill commences Book III by insisting that economic value depends on the theory of distribution, not production (*Principles*, CW, II, 455). In itself that is not puzzling, but the theory of exchange value developed in Book III presents an essentially classical analysis of distribution in market economies (Screpanti and Zamagni, 2005, 118-9). At least if we understand

distribution in terms of the shares of the different factors of production such as labor or capital — as contrasted with distribution among groups not described in terms of their productive roles in the economy (e.g., the educated and uneducated) — the classical analysis posits an intimate connection between production and the distribution among the factors of production (i.e., labor and capital).³ But that means that, after all, Mill's account of exchange value does relate to the factors of production. And there is no doubt that Mill embraces the basic classical analysis of exchange value: "Happily, there is nothing in the laws of Value which remains for the present or any future writer to clear up..." (*Principles*, CW, II, 456). Hollander seems correct: Mill's analysis of distribution in Book II of *Principles*, where it is decoupled from production, must be read as preliminary, for Book III's analysis of exchange in market economies brings them back closer together.

 Mill on property

Mill sought to loosen the tie between production and distribution so that he could address, with an open-mind, the distributive critiques of the socialists (Robbins, 1952, 165-8). Yet, as I have suggested, the classical system was not especially hospitable to a radical break; the analyses of production and distribution were rather more closely linked than indicated by many of Mill's comments in Book II of the *Principles*, "On Distribution." The importance of Mill's positive, classical analysis for understanding his views on distribution are well illustrated by his analysis of property. Famously, Mill proclaims:

[a] Private property, in every defence made of it, is supposed to mean, the guarantee to individuals of the fruits of their own labour and abstinence. The guarantee to them of the fruits of the labour and abstinence of others, transmitted to them without any merit or exertion of their own, is not of the essence of the institution, but a mere incidental consequence, which, when it reaches a certain

height, does not promote, but conflicts with, the ends which render private property legitimate (*Principles*, CW, II, 208).

It is easy to read this as a “Lockean” *justification* of property, as do Screpanti and Zamagni (2005, 115). Mill seems to say that holdings are justified through the expenditure of labor — they are the “fruits” of labor. If we read Mill in this Lockean way, we will be struck by this combination of the Lockean labor theory of property with Mill’s adamant insistence that this principle does not extend to the land:

[b] When the “sacredness of property” is talked of, it should always be remembered, that any such sacredness does not belong in the same degree to landed property. *No man made the land. It is the original inheritance of the whole species.* Its appropriation is wholly a question of general expediency. When private property in land is not expedient, it is unjust: It is no hardship to any one, to be excluded from what others have produced: they were not bound to produce it for his use, and he loses nothing by not sharing in what otherwise would not have existed at all. But it is some hardship to be born into the world and to find all nature's gifts previously engrossed, and no place left for the newcomer (*Principles*, CW, II, 230, emphasis added).

Given the initial Lockean reading of [a], passage [b] suggests that the principle of private property does not extend to the land, or more generally, natural resources. Individuals deserve the fruits of their labor, but this does not apply to the land, which is “the original inheritance of the whole species.” Combining passages [a] and [b], Mill has been read by some as a forerunner of the contemporary normative political philosophy known as “left-libertarianism” (Vallentyne and Steiner, 2001: 157-71), combining strong Lockean rights of the person and the claims to the fruits of one’s labor with common ownership of natural resources (Vallentyne, Steiner, and Otsuka, 2005).

For at least two reasons, I now think we should resist this interpretation.⁴ First,

rather than *justifying* private property (a la Locke), Mill seems to be explicating what he takes as its *underlying rationale*. That is, necessary to the institution of property is that individuals are to receive the fruits of their labor and abstinence; in considering the justification of property it is this feature, not various incidental and accidental features, upon which we must focus. But this does not prejudge whether the institution is truly justified; that is the fundamental concern of Book II of *Principles*. To know its rationale is not to endorse it. Secondly, and for our purposes more importantly, we should resist interpreting Mill's analysis of property as based on simply the fruits of labor: it seeks to ensure the fruits of labor *and* abstinence. This is important as Mill has an abstinence theory of saving and profit (Bluag, 1996, 183, 186-88; Hollander, 1985, 427ff): "all capital is the produce of saving, the abstinence from present consumption for the sake of a future good" (*Principles*, CW, II, 160). Thus, in passage [a] Mill is saying that fundamental to private property is rewarding the two factors of production that are fundamental to the Ricardian system: labor and capital. We can think of private property as basing distribution directly on the factors of the productive process; those individuals who bring forth the factors receive the rewards.

Once we see the analysis of private property in light of the Ricardian version of the classical system, we also can appreciate that the exclusion of landed property is not a basic normative claim about joint world ownership, but reflects a deep Ricardian suspicion of land rents. Ricardo holds the price of a good must cover its labor costs plus the return on capital (profits), but he denies that that price includes rent.

Rent is that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to his landlord. If, of

two adjoining farms of the same extent, and of the same natural fertility, one had all the conveniences of farming buildings, and, besides, were properly drained and manured, and advantageously divided by hedges, fences and walls, while the other had none of these advantages, more remuneration would naturally be paid for the use of one, than for the use of the other; yet in both cases this remuneration would be called rent. But it is evident, that a portion only of the money annually to be paid for the improved farm, would be given for *the original and indestructible powers of the soil*; the other portion would be paid for the use of the capital which had been employed in ameliorating the quality of the land, and in erecting such buildings as were necessary to secure and preserve the produce (Ricardo, 1951 [1821], 67, emphasis added).

On Ricardo's analysis rent would not be paid if there were an abundance of fertile land; each person could simply farm such land, and then the natural price would be determined simply by labor and capital costs. Suppose, however, that land varies in degree of fertility, and comes in three degrees of quality (Ricardo, 1951 [1821], 70ff). A is the most fertile, B, the middle, and C, is the least fertile; assume that an hour of labor produces 10 bushels of wheat on A, 8 on B, and 6 on C. As population increases eventually land B will be pressed into cultivation. Now to be pressed into cultivation, the price of wheat must cover the costs of bringing it to market from B. Simplifying (leaving out capital costs), let us say that 8 bushels of wheat, which take one hour of labor to produce on B, will exchange for goods that themselves take one hour to produce; that must be the market price of wheat if cultivating land B is to cover costs. But land A produces 10 bushels with an hour's labor yet, because wheat has a uniform price in the market, the first 8 bushels of A will cover the cost of producing wheat on A (they will exchange for goods worth one hour of labor); the extra two bushels will go to the landlord of A as rent. Notice that the landlord of A did nothing to achieve this "reward:" it is entirely the result of demand pressing

land B into cultivation. If B can cover its costs, A automatically gets rent. If land C is then pressed to cultivation, the price of wheat will be such that 6 bushels will exchange for goods worth one hour of labor.⁵ In this event the rent on A will go up to 4 bushels, and the landlord of B will now start collecting rent of 2 bushels (8 – 6). Again, rents go up as the need for food production rises, but landlords do nothing to earn this rent: they do not bring any factors to bear on production. Fundamental to the Ricardian theory of rents is that the price of grain is determined by the cost of production on land of poorest quality, which by definition collects no rent. Thus the market price of grain does not reflect rent payments (Robbins, 1998: 189-91).

Mill declares himself to be a disciple of Ricardo on this essential point: “This general law of agricultural industry is the most important proposition in political economy” (*Principles*, CW, II, 174; see also Blaug, 1996, 183; on Mill’s more general Ricardianism, see Riley, 1998). We can now appreciate why the principle of private property does not apply to land ownership: in contrast to laborers and capitalists, landlords contribute nothing to production, and grow richer as society becomes more miserable.⁶ Rather than interpreting Mill’s analysis of property in passages [a] and [b] as a sort of proto left-libertarian normative theory of distribution, it is far sounder to read it as closely tied to Mill’s Ricardian analysis of production.

<A> Economic freedom in Mill’s normative economics

Thus far I have been arguing that Mill’s normative economics is much more closely tied to his positive analysis than many suppose. I now wish to show that his normative economics is much more closely tied to his general normative system than is commonly thought.

 Mill on *laissez-faire*: the common view

Mill famously declares in Book V, chapter xi of the *Principles* that “*Laissez-faire*, in short, should be the general practice: every departure from it, unless required by

some great good, is a certain evil" (*Principles*, CW, III, 945). However, after proclaiming this general principle, Mill goes on to justify a list of exceptions — cases in which government interference in economic life is justified (*Principles*, CW, III, 947-71). Thus Mill argues government intervention is justified in cases such as:

- when the consumer is incompetent to make the best choice for herself (education, Mill thought, was a crucial example of such a good);
- when one person exercises power over another, such as over children;
- when there are contracts in perpetuity, such as marriages that cannot be dissolved;
- there are agent-principal problems: a principal, such as the owner of stock in a corporation, may hire an agent (manager) to look after her interest, but if she does not have the same knowledge as the agent, the agent may be prevented from acting in her interest.
- natural monopolies such as gas and water (where the market equilibrium is not multiple competing providers, but a single one);
- when there are collective action problems in which all may prefer a certain outcome, but unless they act in concert they cannot achieve it;⁷
- colonization;
- support of the poor;
- there are goods with "indiscriminate" benefit: this is the core of the idea that governments are to supply public goods such as clear air and "the cultivation of speculative knowledge," which if they are provided to anyone, they are necessarily provided to everyone, so each has an incentive to wait until someone else provides the good (Blaug, 1996, 211).

The common view of Mill's overall discussion of the limits of government

interference in the economy makes two claims. First, the list of exceptions is so extensive that there really is nothing left of the basic *laissez-faire* principle. According to Marian Bowley, in the end he is left with only “a shadow of a maxim” (Schwartz, 1968, 124). The second claim follows closely: Mill’s considered opinion is that whether or not government should intervene is simply a question of expediency, entirely independent of his doctrine in *On Liberty*; recall (p. 2 above) that he insists that trade is a social act to which the “principle of individual liberty” does not apply. As Jonathan Riley sums up this view:

... Mill’s general policy of *laissez-faire* [is] marked by various “large exceptions”.... Another point worth emphasizing is that it is *entirely distinct* from his famous principle of individual liberty.... His rather complicated *laissez-faire* policy is driven by considerations of general expediency: its delicate balance between private competition and government intervention is defended as expedient for attaining any civil society’s economic goals, including allocative efficiency. But the “one very simple principle” of liberty [in *On Liberty*] is grounded on considerations of justice: its assignment of universal equal rights to make whatever purely private choices one likes is said to be part of what justice should mean in any civilized society. These two doctrines are often conflated by a failure to recognize that the meaning of the term “private” alters as we move from Mill’s idea of a private choice and the common idea of private market activity (Riley, 1994, xli-xlii, emphasis added).

Thus, on this common view, Mill’s normative economics is independent of his broader normative commitments in social philosophy; it is a straightforward utilitarian analysis of economic policy, aiming at “civil society’s economic goals, including allocative efficiency.”

 Liberty in *Liberty* and the *Principles*

To evaluate this common view, let us pause to consider Mill's project in *Liberty*. Certainly the common view is correct that Mill's ultimate aim is to defend "one very simple principle, as entitled to govern *absolutely* the dealings of society with the individual in the way of compulsion and control," viz. "that the sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number, is self-protection.... That the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others" (*Liberty*, CW, XVIII, 223, emphasis added). It is critical, however, that we distinguish two stages of Mill's defense of this claim.⁸

First, much of *Liberty* is devoted to showing the fundamental value of liberty. In particular, chapters II and III are devoted to advancing wide-ranging arguments showing that human freedom is a great good: it is necessary for individuality, intellectual progress, and is the engine of material progress. "Genius can only breathe freely in an *atmosphere* of freedom" (*Liberty*, CW, XVIII, 267). The fundamental value of liberty gives rise in Mill's normative system to a basic presumption in favor of freedom over regulation. Thus in the *Subjection of Women*, a work that advances many of the themes of *Liberty*, Mill notes that, "in practical matters, the burthen of proof is supposed to be with those who are against liberty" (*Subjection*, CW, XXI, 262; see also *Liberty*, CW, XVIII, 299). Liberty is the default; its limitation requires justification.

The *second* important stage of Mill's argument is to identify when the presumption in favor of liberty is impossible to override or defeat. Mill describes this stage in the *Principles* as seeking to delimit the "departments of human life" from which coercive interference with liberty "must be unreservedly and imperiously excluded" (*Principles*, CW, III, 937). These excluded departments, according to Mill, "ought to include all that part which concerns only the life, whether inward or outward, of the individual, and does not affect the interests of others, or affects them

only through the moral influence of example" (*Principles*, CW, III, 938). Mill is indeed absolutely clear that the departments from which coercion "must be unreservedly and imperiously excluded" do not include trade, and in general economic activity, since they affect the interests of others. It is, however, a serious mistake to infer that, because the *second-stage* argument does not apply to trade, neither does the general presumption in favor of liberty. Mill explicitly denies this inference:

Even in those portions of conduct which do affect the interest of others, the onus of making out a case always lies on the defenders of legal prohibitions. It is not a merely constructive or presumptive injury to others, which will justify the interference of law with individual freedom. To be prevented from doing what one is inclined to, or from acting according to one's own judgment of what is desirable, is not only always irksome, but always tends, *pro tanto*, to starve the development of some portion of the bodily or mental faculties, either sensitive or active; and unless the conscience of the individual goes freely with the legal restraint, it partakes, either in a great or in a small degree, of the degradation of slavery. Scarcely any degree of utility, short of absolute necessity, will justify a prohibitory regulation, unless it can also be made to recommend itself to the general conscience; unless persons of ordinary good intentions either believe already, or can be induced to believe, that the thing prohibited is a thing which they ought not to wish to do (*Principles*, CW, III, 938).

It is difficult to square this with the reading that, in economic matters, only straightforward expediency and efficiency considerations count: "Scarcely *any degree of utility*, short of absolute necessity, will justify a prohibitory regulation, unless it can also be made to recommend itself to the general conscience."⁹

Indeed, Mill takes pains to stress that one of the strongest reasons against government interference in social, including economic, life is its effect on

individuality and human intellect. In *Liberty* Mill insists that, even if another could choose better for a person than he would choose for himself, it is nevertheless better to allow each the freedom to make her own decisions. “He who chooses his plan for himself, employs all his faculties. He must use observation to see, reasoning and judgment to foresee, activity to gather materials for decision, discrimination to decide, and when he has decided, firmness and self-control to hold to his deliberate decision (*Liberty*, CW, XVIII, 262-63). In *The Principles*, not only does Mill make much the same argument, but depicts it as one of the “strongest reasons against the extension of government agency” (*Principles*, CW, III, 942). “Even if the government could comprehend within itself...all the most eminent intellectual capacity and active talent of the nation, it would not be the less desirable that the conduct of a large portion of the affairs of the society should be left in the hands of the persons immediately interested in them.” Crucial to human improvement and mental development “is a vigorous exercise of the active energies; labour, contrivance, judgment, self-control: and the natural stimulus to these is the difficulties of life” (*Principles*, CW, III, 942-3).

It is because Mill is so devoted to liberty and intellectual development, and so worried about the effects of coercive limitations, that he, uniquely among the classical political economists, stresses the distinction between authoritative and non-authoritative actions of government. Some interventions by government “extend to controlling the free agency of individuals. Government may interdict all Persons from doing certain things; or from doing them without its authorization; or may prescribe to them certain things to be done, or a certain manner of doing things which it is left optional with them to do or to abstain from” (*Principles*, CW, III, 937). Again, in economics as in all other spheres of social life, the presumption is always in favor of liberty, and so such authoritative interventions must be justified. Mill treats altogether differently government interventions that do not restrain freedom:

There is another kind of intervention which is not authoritative: when a government, instead of issuing a command and enforcing it by penalties, adopts the course so seldom resorted to by governments, and of which such important use might be made, that of giving advice, and promulgating information; or when, leaving individuals free to use their own means of pursuing any object of general interest, the government, not meddling with them, but not trusting the object solely to their care, establishes, side by side with their arrangements, an agency of its own for a like purpose (*Principles*, CW, III, 937).

With such interventions there is “no infringement of liberty, no irksome or degrading restraint. One of the principal objections to government interference is then absent” (*Principles*, CW, III, 939).¹⁰

Overall, we can see that Mill’s entire analysis in the crucial chapter xi of Book V, “Of the Grounds and Limits of the Laisser-Faire or Non-Interference Principle,” is structured around the value of freedom and individuality. Hollander is, once again, absolutely correct: “The perspective of *On Liberty* is that of the *Principles*” (1985, 685).

 The Rule of Laissez-Faire and Mill’s Classical Political Economy

Not only, as we saw above, does Mill declare that “*Laisser-Faire*, in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil” (*Principles*, CW, III, 945), but after enumerating the exceptions, Mill concludes that they are “to the best of my judgment, the whole of the exceptions to the practical maxim, that the business of society can be best performed by private and voluntary agency” (*Principles*, CW, III, 970). In his classic study of Mill’s political economy, Pedro Schwartz confesses puzzlement about this summary remark; Mill’s approach does not allow a closed list of justified interventions (Schwartz, 141). Thus the puzzle about Mill: why does he try so hard to specify a rule of laissez faire, yet his specific discussions are nuanced, and the underlying rationale apparently open-

ended, about economic tasks of government? Was Bowley correct that, in the end, Mill is left with only “a shadow of a maxim?”

Everything turns here, I think, on appreciating that Mill was a classical political economist, and that all the classical had fairly complex views about the role of government. Despite the important work of historians of economic thought such as Robbins (1952), Schwartz (1968), and O’Brien (2004), many continue to believe that in general classical political economy strongly endorsed *laissez faire*, and so Mill’s list of exceptions, so far from showing he supported the principle, indicate that he was really qualifying it out of existence. But none of the classical political economists were doctrinaire proponents of *laissez-faire*; that dubious honor goes to the French physiocrats of the eighteenth century and to members of the British “Manchester School” of the nineteenth century.¹¹ Indeed, endorsing *any* version of “*laissez faire*” is not typical among the classical political economists. J. R. McCulloch repudiated it: “The principle of *laissez-faire* may be safely trusted to in some things but in many more it is wholly inapplicable; and to appeal to it on all occasions savours more of the policy of a parrot than of a statesman or philosopher” (quoted in Robbins, 1952, 43). Robert Torrens was similarly disparaging (Robbins, 1952, 44n). And Nassau Senior, in a review of Mill’s *Principles*, explicitly rejects Mill’s defense of it (Robbins, 1952, 45; Schwartz, 124). When we compare Mill with the other classical political economists, so far from qualifying an accepted principle out of existence, he is its foremost advocate. To be sure, as a classical economist he is alive to the various tasks that government must perform, including ones that it should have been performing that it was failing to; and he too criticized those with a too-literal interpretation of *laissez-faire* (Robbins, 1952, 44n).

Mill was distinctive among the classical political economists; he was also a philosopher who thought deeply about the place of rules in guiding practice (Riley, 1998). Economic policy, like morality, is not the same as the science of economics; it is what Mill calls an “art” (*Logic*, CW, VIII, 943). “An art, or a body of art, consists of

the rules, together with as much of the speculative propositions as comprises the justification of those rules (*Logic*, CW, VIII, 947). For Mill, art proposes the goal (say, the protection of liberty or utility), and then looks to science as providing guidance as to how this end is to be achieved. These practice-guiding rules or “maxims” do not seek to attend to more conditions (or qualifications) than arise in ordinary cases; their very nature as guides to practice action means that they are imperfect expressions of the underlying science (*Logic*, CW, VIII, 947).

Mill’s treatment of the place of rules in practice poses a puzzle for all interpreters. On the one hand, he disparages legislators who are rule-worshippers:

The legislator is bound to take into consideration the reasons or grounds of the maxim....[T]he legislator, or other practitioner, who goes by rules rather than by their reasons, like the old-fashioned German tacticians who were vanquished by Napoleon, or the physician who preferred that his patients should die by rule rather than recover contrary to it, is rightly judged to be a mere pedant, and the slave of his formulas (*Logic*, CW, VIII, 944).

It would thus seem that a maxim of art could only function as a general guide to a legislator formulating policy; the legislator must be sensitive to the underlying goals. The conclusion that, for Mill, *laissez-faire* is only a tentative maxim with a host of exceptions, is indeed solidly grounded on Mill’s general treatment of rules of art. Yet, this is the same author who, in *Liberty*, proposes “one very simple principle, as entitled to govern absolutely the dealings of society with the individual in the way of compulsion and control” (*Liberty*, CW, XVIII, 223). Given the analysis of rules of art in the *Logic*, it is, to say the least, very difficult to see how such a simple and absolute maxim, covering such a wide area of social life, could be justified. What is clear is that throughout his career Mill is deeply worried about “what happens when once men lose sight in their speculations, of the value of Liberty and Individuality” (*Autobiography*, CW, I, 221). In matters of coercive regulation of liberty and

individuality, Mill consistently sought to formulate the strongest possible guides to practice, stronger perhaps than his more general analysis of rules would justify. In the case of *On Liberty* this was a simple and absolute rule. In the *Principles* the task was much more difficult. Not only did Mill recognize that the actions under consideration affected the interests of others, but he was working within a tradition in political economy that generally disavowed clear rules about the proper scope of economic policy. What is truly noteworthy about Mill's defense of laissez faire is not his exceptions, but his sustained effort to justify and specify a liberty-protecting rule. The crux of Mill's complicated laissez-faire rule — the reason why he seeks to develop such a rule within classical political economy — is the fundamental importance of liberty and individuality in his social, political *and* economic thought.

<A> Mill's Analysis of Socialism: Drawing the Elements Together

In his *Autobiography* Mill says that his and Harriet's social ideal "would decidedly classify them under the general description of Socialists" (*Autobiography*, CW, I, 238). At least from the third edition onwards, *The Principles of Political Economy* insisted that the justifiability of socialism was an open question, and could not be dismissed on the general facts of economic science.¹² Indeed, Mill saw his main departure from the "old school of political economists" as opening up the possibility that the path of social improvement could lead toward socialism and the abolition of private property (*Autobiography*, CW, I, 238). It may well seem that Mill's attitudes toward socialism are proof of the relative independence of his normative economics. Because distribution does not follow from production, socialism cannot be dismissed on the basis of positive economics; because personal liberty is distinct from economic liberty, it cannot be dismissed by appeal to human freedom. I believe that both these claims are mistaken. Mill is ultimately deeply skeptical of socialism just because of his positive economics and his devotion to liberty. Because Mill's views about socialism were constantly evolving, I focus here on, quite literally, his last

word — the posthumous *Chapters on Socialism*.

 What is Socialism?

We must first clarify what Mill has in mind by “socialism.” Analyses of Mill’s views on socialism must distinguish four quite different institutional arrangements.

(i) For Mill “what is characteristic of Socialism is the joint ownership by all the members of the community of the instruments and means of production; which carries with it the consequence that the division of the produce among the body of owners must be a public act, performed according to rules laid down by the community” (*Chapters, CW, V, 738*). Mill typically reserved “socialism” for institutional schemes that differentially rewarded differential inputs into the productive process. The models here are those of Robert Owen’s (1914) New Lanark community, the followers of Saint-Simon (Robbins, 1998), and especially the writings of Charles Fourier (Hollander, 1985, 800ff; Schwartz, 1968, 169ff; Screpanti and Zamagni, 2005, 133-40).¹³ All of these proposals had the advantage of being subject to relatively small-scale experiments. They can be “tried first on a select population and extended to others as their education and cultivation permit” (*Chapters, CW, V, 737*). (ii) Mill referred to “communism” as a version socialism, such as that proposed by Louis Blanc, that did not differentially reward inputs: the distribution of the fruits of production was governed by some principle of equality.

(iii) Mill sharply contrasts the first two forms of “socialism” from “revolutionary” socialism, which seeks “to substitute the new rule for the old at a single stroke, and to exchange the amount of good realised under the present system, and its large possibilities of improvement, for a plunge without any preparation into the most extreme form of the problem of carrying on the whole round of the operations of social life without the motive power which has always hitherto worked the social machinery.” Mill is deeply critical of such proposals: their advocates “must have a serene confidence in their own wisdom on the one hand and

a recklessness of other people's sufferings on the other" (*Chapters*, CW, V, 737).

(iv) Lastly, sometimes, when Mill is called a "socialist," readers have in mind his support for cooperative production, where the firm is owned and managed by the workers collectively, but workers do not own shares that can be sold (Robbins 1952, 158-9). It is no doubt true that Mill envisages and welcomes the eventuality of the "stationary state," in which the rate of profit would be just enough to sustain current capital (approaching zero) and so growth would cease and new forms of industrial organization such as worker cooperatives would arise (*Principles*, CW, III, 758-98).¹⁴ In a sense, the stationary state is approaching socialism, as profits are tending towards zero (Screpanti and Zamagni, 2005, 212); so a regime of worker cooperatives in the stationary state would be a form of socialism, or at least a type of "post-capitalism" (Riley, 1994, xxv-xxxvi). However, while Mill's personal "socialism" may have been essentially a faith that such a condition will eventually arise, it is never Mill's focus in his explicit discussions of socialism, which almost always focus on (i) and (ii) — as will I.

 The Economic Problems of Socialism

Mill reiterates his distinction between the laws of production and distribution in the *Chapters*, stressing that that the former is a matter of necessity, based on physical laws: "there must be a large accumulation of capital, both fixed in the implements and buildings, and circulating, that is, employed in maintaining the labourers and their families during the time which elapses before the productive operations are completed and the products come in" (*Chapters*, CW, V, 738). But whether this capital is to be private or collective property is a matter of social choice (it is a matter of distribution). Again, then, the basic laws of economic science do not preclude socialism. But that a society can choose whether to embrace private or collective property does not mean that it can choose the consequences of that decision. Thus for Mill "the question to be considered is, whether this joint management is likely to

be as efficient and successful as the managements of private industry by private capital. And this question has to be considered in a double aspect; the efficiency of the directing mind, or minds, and that of the simple workpeople (*Chapters, CW, V, 739*). Mill focuses his analysis on communism and its equal rewards principle (*Chapters, CW, V, 737-47*).

As far as efficiency of “directing minds” — managers, planners, and so on — Mill comes down clearly on the side of private property. Although it is not inevitable that people are motivated by self-interest, in the near- and medium-term, until education is far more advanced, we must suppose that it will be the predominate motive in economics. Because private-property based economies reward the owners of capital for seeking out new opportunities and methods, and their profits are closely tied to the success of their business, private property systems strongly motivate owners. In contrast, Mill argues, communism provides little incentive for the exceptional to take on managerial tasks with great responsibilities; their reward would be no greater than a regular worker. To be sure, given a sufficient degree of education and intellectual advancement, people might be motivated by public service and communal reputations, but, not only are these sentiments still sufficiently rare, but they “are more to be depended on for preventing wrong, than for calling forth the fullest energies in the pursuit of ordinary occupations” (*Chapters, CW, V, 739-40*).

Communism, on the hand, has the advantage when it comes to efficiency of “simple workpeople.” Under the current system workers have very little interest in performing well; they have fixed wages and every incentive to do the least work they can: “The change from this to a state in which every person would have an interest in rendering every other person as industrious, skillful [sic], and careful as possible (which would be the case under Communism), would be a change very much for the better” (*Chapters, CW, V, 742*). Yet Mill immediately adds that a system of private property and individual competition can be reformed in a direction that

also solves this problem. Mill always championed piecework (paying workers in terms of the units produced) as a way to more closely link workers' incentives to efficiency. But in the longer term Mill looked to his favored system of worker cooperatives (which would still be based on competition between cooperative producers) or at least arrangements by which owners and workers share in profits. These too would link worker incentives to efficiency.

Mill also argues that egalitarian schemes have difficulty fully utilizing the division of labor. Recall that communism seeks to equally reward different workers: it thus must compare different occupations to determine equal treatment. It is, however, very hard to determine, say, how an hour of ditch digging compares with an hour of fishing (Mill suggests that communist communities would be constantly in conflict about such matters); to avoid these decisions there would be a tendency to rotate tasks as much as possible. But this, of course, undermines occupational specialization.

Mill depicts Fourierism as a version of socialism that seeks to respond to all the obvious difficulties of communism, by allowing differential rewards, specialization, and so on. "There is scarcely an objection or a difficulty which Fourier did not foresee, and against which he did not make provision beforehand by self-acting contrivances, grounded, however, upon a less high principle of distributive justice than that of Communism, since he admits inequalities of distribution and individual ownership of capital, but not the arbitrary disposal of it" (*Chapters, CW, V, 747*). As Mill understood it, Fourier proposed a solution to the socialist problem of the allocation of labor: people would gravitate to the type of work they enjoyed.

The workers in a Fourierist village are to class themselves spontaneously in groups, each group undertaking a different kind of work, and the same person may be a member not only of one group but of any number; a certain minimum having first been set apart for the subsistence of every member of the

community, whether capable or not of labour, the society divides the remainder of the produce among the different groups....” (*Chapters*, CW, V, 747).

So the total amount of income for each group will be set by society; groups will apparently adjust their size according to the share a group receives. Just how all this is to function is highly speculative.

Although Mill certainly thinks that such schemes — both communist, but especially socialist — have a sound case for experimental trial, he concludes that “they are at present workable only by the *élite* of mankind, and have yet to prove their power of training mankind at large to the state of improvement which they presuppose... ” (*Chapters*, CW, V, 748).

 Freedom and Socialism

Mill was always most sensitive and sympathetic to socialist criticisms of the injustice of the current economic order, and the importance of their case for distributive justice. We must be very careful to distinguish Mill’s defense of the possibilities of a reformed private property-based economy from the form of private property that he confronted in Victorian England. Yet, it would be entirely erroneous to conclude that, while Mill thinks the socialists have the moral high ground, given the economic problems of socialism and supposing humans as they are, we should stick with private property as normatively unappealing but economically efficient. In the *Principles* Mill suggested that the ultimate judgment as to the superiority of property-based economies or socialism will turn on which system is consistent with the greatest amount of human freedom (*Principles*, CW, II, 208). In *The Chapters* Mill seems to have reached a clear, but of course always defeasible, judgment about communism:

The obstacles to human progression are always great, and require a concurrence of favourable circumstances to overcome them; but an indispensable condition of

their being overcome is, that human nature should have freedom to expand spontaneously in various directions, both in thought and practice; that people should both think for themselves and try experiments for themselves, and should not resign into the hands of rulers, whether acting in the name of a few or of the majority, the business of thinking for them, and of prescribing how they shall act. But in Communist associations private life would be brought in a most unexampled degree within the dominion of public authority, and there would be less scope for the development of individual character and individual preferences than has hitherto existed among the full citizens of any state belonging to the progressive branches of the human family. Already in all societies the compression of individuality by the majority is a great and growing evil; it would probably be much greater under Communism... (*Chapters, CW, V, 745-6*).

If we understand the comparative evaluation of (broadly speaking) capitalism and socialism as a core question of normative economics of the late nineteenth and twentieth centuries, Mill's open-minded, but by no means indecisive, analysis shows just how closely his conclusions in normative economics were related both to his positive economics and his general liberal defense of liberty.

¹The classical political economists are usually taken to include Adam Smith, David Ricardo, Thomas Malthus, J. B. Say, James Mill, John Stuart Mill, John Ramsey McCulloch, Nassau Senior, Robert Torrens and J. E. Cairnes. The definitive study of the classical school is O'Brien (2004).

²*"Laissez-faire"* — let them choose, to which it was sometimes added *"laissez passer,"* or let them exchange — was a doctrine first proposed by the French economist François Quesnay (1694-1774). Quesnay was the founder of the "physiocratic" school of economics, which held that all new wealth came from agriculture, and that economic systems were governed by natural law. They were generally strong advocates of a wide-ranging non-interference in economic life. See

further Robbins, 1998, 95-103.

³ See O'Brien, 2004, chap. 5. Even in classical political economy there is some room for independent distributive concerns; as long as capital and labor get their minimums, Adam Smith argued, there is room for different distributions. See Smith, 1981 [1776]: chap. 8.

⁴ I mistakenly suggested such a view in Gaus, 1999, chap. 9.

⁵ More precisely, on Ricardo's analysis, goods exchange in the ratio that corresponds to the ratio of the labor taken to produce them.

⁶ On the basic Ricardian analysis, as population increases, real wages — which essentially concern the amount of food that can be bought with an hour's labor — steadily decline. Profits also decline, while rent goes up. See O'Brien, 2004, 137-61.

⁷ Mill thought that legislation limiting hours on employment is an example of this: "Let us suppose, what is at least supposable, whether it be the fact or not — that a general reduction of the hours of factory labour, say from ten to nine, would be for the advantage of the work-people.... it will not be adopted unless the body of operatives bind themselves to one another to abide by it. A workman who refused to work more than nine hours while there were others who worked ten, would either not be employed at all, or if employed, must submit to lose one tenth of his wages" (*Principles*, CW, III, 957). Thus, Mill conjectured, a law prohibiting working ten hours may be in the interests of the vast majority of workers.

⁸ I expand upon this analysis in Gaus 2008.

⁹ Hollander, after noting this passage from *Principles*, writes that "Government, in short, may have a formal right to intervene where second parties are involved but this was not a free license to do so. There must be a sound case from utility" (1985, 686). But surely Mill is suggesting that something rather stronger than a "sound case" is called for.

¹⁰ Except, Mill immediately notes, insofar as these activities are funded by taxation, which does

involve coercion.

¹¹ For the physiocrats, see note 2 above. For a classic (and sympathetic) study of the Manchester School, see Grampp 1960.

¹² The first edition of the *Principles*, in 1848, was critical of socialism; in the third edition of 1852 the relevant discussion were drastically revised and much more sympathetic. For a still excellent analysis of the changes, see Robbins, 1952, 147-60.

¹³ Mill was amazingly generous in his treatment of Fourier, who was noted for a variety of bizarre predictions: a utopia was coming that would last 80,000 years of which 8,000 of them would be an era of perfect harmony in which, for example, the seas would lose their salt, the oceans would become lemonade, and each woman was to have simultaneously either four lovers or four husbands. Mill charitably comments that “Fourier had peculiar opinions, which, however, as he himself declares, are quite independent of, and separable from, the principles of his industrial system” (*Chapters*, CW, V, 748). He was less kind to Pierre Proudhon, writing to Harriet: “I heartily wish Proudhon dead... there are few men whose state of mind, taken as a whole, inspires me with so much aversion, & all his influence seems to me mischievous except as a potent dissolvent which is good so far, but every single thing which he would substitute seems to me the worst possible in practice & mostly [?] in principle” (*Letter to Harriet*, c. 31 March, 1849, CW, III, 1031-2). My thanks to Piers Turner for pointing me to this letter.

¹⁴ Unfortunately, space does not allow further consideration the stationary state — which can only be adequately grasped if one understands Mill’s positive economics. In one respect Riley (1998, 297) is correct that Mill “prescribes” a stationary state where economic growth is halted, and so “prescribes a halt to economic growth.” Yet within classical political economy the stationary scope was inevitable; Mill’s “prescription” of it follows a series of chapters showing that it is inevitable. To prescribe what is unavoidable is still a prescription, but not one with many opportunity costs.

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