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In the early nineteenth century, conservatives had to confront the growing challenge posed by the rise of socialist ideas and the expanding influence of the labor theory of value. As this article explains, the leading utilitarians of the day offered two different responses, leading to two distinct schools of economic thought. One response, by Frederick Bastiat, was to defend the utilitarian foundation of laissez-faire capitalism, and to deny the need for an alternative theory of value. The other response, by John Stuart Mill, was to integrate the labor theory of value with an eclectic, reformist utilitarianism. Bastiat’s route, established a foundation for the later Austrian and Chicago schools, while Mill’s alternative paved the way for Marshallian neoclassical economics.

BASTIAT’S UTILITARIAN DEFENSE OF LAISSEZ-FAIRE

Between 1820 and 1850, working class movements flourished in England and France, often raising the increasingly influential socialist critique that capitalism creates inequality and class conflict. In his *Economic Harmonies* (1848), Bastiat sets out to demonstrate on utilitarian grounds that open, competitive markets operate in the best interests of all classes. His argument for harmony combined the “scientific” law that self-interest motivates all behavior with the assumption that exchange would not take place unless it was beneficial for all participants. Unlike Adam Smith, who devoted only a few dozen pages of his thousand-page *Wealth of Nations* to exchange, Bastiat’s analysis of political economy focused exclusively on market exchange. According to Bastiat, “exchange is political economy.” (157)

The focus on exchange led Bastiat to confront Smith’s water/diamond paradox: why does a scarce but useless commodity have a higher price than a plentiful, but essential commodity? Bastiat’s answer makes a distinction between two types of utility. Utility purchased with effort, as from diamonds, differs from that obtained without effort, as from water. Bastiat’s revised principle of utility maximization asserts that individuals seek to increase satisfaction in relation to effort.

Bastiat’s distinction between productive and natural utility served as the basis of his theory of value and as a justification for the private ownership of capital. Productive, onerous utility meant a type of painful service that capitalists, landowners, and laborers underwent in order for production to take place. Laborers performed painful work, capitalists endured the pain of owning money and accumulating interest, yet postponing consumption, while landowners

suffered the use of their land by others. Once the contributions of laborers, capitalists and landowners are all viewed as types of productive service, then it is easy to conclude that the value of a product is identical with the value of the services required to produce it. Thus, there is no need for a labor theory of value: the utility of service becomes the source of all value.

It remained for Bastiat to justify private ownership and explain why capitalists and landlords are entitled to their profits. Bastiat's class bias is clearly evident in his defense of the sacredness of existing property rights. His natural law defense of private property, implies that "[p]roperty does not exist because there are laws," but rather that "laws exist because there is property." (161) God's will is the source of property, so human law should be directed to its protection or security. Consequently, the main role of government is to protect property and provide security. He goes on to reassure landowners that rents are just compensation for services rendered and received by them and assumes without argument that landlords charge for preparing the land, working on it, enclosing it, draining it, and improving it.

In defense of profits on capital, Bastiat again appeals to the pain suffered by capitalists. However, he astonishingly fails to compare (accurately) the privations and sacrifice endured by capitalists, which derive entirely from postponing consumption and spending, with the disproportionate pains suffered by the laboring poor is astonishing.

Bastiat never even considered the socialists' belief that an ordinary working man earned in wages just enough (and sometimes less) for his family's subsistence; that there was utterly no possibility for him to save the millions necessary to become a capitalist from his meager paycheck; that in actual fact the origins of most capitalists' fortunes were deceit, treachery, fraud, coercion, and bribery; and that once capitalism was established, after a generation or two, the origin of most capitalists' fortunes was inheritance. (162)

In fact, Bastiat goes on to defend inheritance from those who would tax it, arguing that history and God are on the side of landowners.

In sum, Bastiat's argument for the universal harmony of all classes in a free market economy comes down to a simple defense of free exchange and protection of the sanctity of property. All social ills would be cured if everyone were left free to pursue their interests.

MILL'S DEFENSE OF A MIXED ECONOMY

John Stuart Mill differed from Bastiat and other utilitarians in many crucial respects. Against Bastiat, Mill believed that private property was a human convention, not sacrosanct; and that subsistence needs as well as exchange should be the focus of political economy. Against "pure" utilitarianism, he rejected two of Bentham's most fundamental tenets: that all motives can be reduced to self-interest and that each individual is the best judge of his or her own welfare. Perhaps most famously, Mill defended the possibility that pleasures differ in quality. Mill's approach is a significant alternative to the conception of utility proposed by Bentham. It theoretically permits interpersonal comparisons of utility, on the basis of whatever principle is used to rank different pleasures. His eclectic vision is so distinctive it hardly warrants the name "utilitarian".

Although he described himself as a disciple of both Bentham and Ricardo, Mill differed with both of his “masters.” He rejected Ricardo’s labor theory of value, which holds that the value of commodities depends on the quantity of labor needed for its production. Instead, Mill followed Smith in arguing that production costs (the sum of the price of the services of land, labor and capital) eventually determine market prices. Unlike Ricardo, Mill viewed profit as arising from exchange rather than from production. Profit was the remuneration through exchange for abstinence, risk and exertion. According to Mill, labor is the most important but not exclusive determinant of value.

Unlike Bastiat, Mill believed that gross inequalities in wealth and income were not only morally unacceptable, but would ultimately be abolished. Property claims, many of which had arisen from violence and conquest, were far from sacrosanct. Concentration of wealth and nearly all the means of production in the hands of a small capitalist class created a “tiny, parasitic class, living in luxury, whose income had no necessary connection to productive activity.” (173) Despite the fact that Mill was deeply troubled by the capitalism of his day, and preferred an ideal communist or socialist society to his own, he was not a consistent advocate of socialism in practice. Although he favored small-scale cooperatives, he believed that socialism could only triumph after people’s characters have been elevated in a far distant future. Until that happens, political economy must be primarily concerned

with the conditions of existence and progress belonging to a society founded on private property and individual competition; and that the object to be principally aimed at, in the present stage of human improvement, is not the subversion of the system of individual property, but the improvement of it, and the full participation of every member of the community in its benefits. (175)

Although Mill insisted that the government should, as a general practice, avoid regulating markets, he also believed that state intervention was necessary in three areas. First, he argued that everyone does not always know what is in his or her best interests. According to Mill, this is especially true of the poor. His corrective was for the government to develop the character, habits, and judgments of the poor through a program of national education and to eliminate poverty for one generation through money and land transfers. He also supported the Poor Law of 1834, which provided meager subsistence for those unwilling or unable to work, on the grounds that public assistance was only desirable “if, while available to everybody, it leaves to everyone a strong motive to do without if he can...”¹ (177) Second, Mill advocated an inheritance tax, on the grounds that the lucky few to be born into wealth neither earn nor deserve to inherit the profits of their fathers. Finally, he argued that the state should limit the development and expansion of monopolies, which he recognized as harmful to societal well-being.

Utilitarianism, particularly when elaborated into a theory of value and exchange, tends to provide intellectual support for laissez-faire capitalism, as with Bastiat. Mill, however, was a reformer who claimed to be a utilitarian. His support for an extensive program for reform reflects his optimistic view of human nature and its perfectibility, not a rigorous deduction from his variant of utilitarianism.

Notes

1. Mill, John Stuart, *Principles of Political Economy* (New York: Augustus M. Kelley, 1965), p. 968.