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The Trend of Economic Thinking

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# The Trend of Economic Thinking<sup>1</sup>

BY F. A. VON HAYEK

*(Tooke Professor of Economic Science and Statistics in the University of London)*

## I

THE position of the economist in the intellectual life of our time is unlike that of the practitioners of any other branch of knowledge. Questions for whose solution his special knowledge is relevant are probably more frequently encountered than questions relating to any other science. Yet, in large measure, this knowledge is disregarded and in many respects public opinion even seems to move in a contrary direction. Thus the economist appears to be hopelessly out of tune with his time, giving unpractical advice to which the public is not disposed to listen and having no influence upon contemporary events. Why is this?

The situation is not without precedent in the history of economic thought; but it cannot be considered as normal, and there is strong reason to believe that it must be the result of a particular historical situation. For the views at present held by the public can clearly be traced to the economists of a generation or so ago. So that the fact is, not that the teaching of the economist has no influence at all; on the contrary, it may be very powerful. But it takes a long time to make its influence felt, so that, if there is change, the new ideas tend to be swamped by the domination of ideas which, in fact, have become obsolete. Hence the recurring intellectual isolation of the economist. The problem of the relation between the economist and public opinion to-day resolves itself, therefore, into a question of the causes of the intellectual changes which have conspired to bring about this cleavage. It is this subject which I have chosen as the main theme of this lecture.

<sup>1</sup> Inaugural lecture delivered at the London School of Economics and Political Science on March 1st, 1933. The Chair was taken by Dr. James Bonar.

## II

The subject is a vast one, but the aspect which I wish chiefly to emphasise is that which the economist must, naturally, be most anxious to make clear to the public: i.e. the rôle played by purely scientific progress—the growth of our insight into the interdependence of economic phenomena—in bringing about these changes in his attitude to practical problems.

At first sight there seem to be only two reasons why economists should change their attitude towards questions of economic policy: either they may find that their knowledge has been inadequate, or their views on the fundamental ethical postulates (upon which, of course, every practical conclusion is based) may undergo a change. In either case the rôle played by science would be clear. But, in fact, the cause of the great historical changes which I am discussing seems to me to be of a more subtle kind. It consists neither of a change in the underlying ethical valuations nor of a refutation of the validity of certain analytical propositions, but rather in a change of view regarding the relevance of that knowledge for practical problems. It was not a change of ideals nor a change of reasoning but a change of view with regard to the applicability of such reasoning which was responsible for the characteristic features of the popular economics of to-day. How did this come about?

It is a common belief that, about the middle of last century, perhaps under the influence of socialistic ideas, the social conscience was aroused by the existence of human misery which had previously escaped recognition, and it was decided no longer to tolerate it. Hence the decline of “the old political economy” which had been blind to these considerations. But, in fact, nothing could be farther from the truth. No serious attempt has ever been made to show that the great liberal economists were any less concerned with the welfare of the poorer classes of society than were their successors. And I do not think that any such attempt could possibly be successful. The causes of the change must be sought elsewhere.

## III

It is probably true that economic analysis has never been the product of detached intellectual curiosity about the *why* of social phenomena, but of an intense urge to reconstruct a world which gives rise to profound dissatisfaction. This is as true of the phylogenesis of economics as of the ontogenesis of probably

every economist. As Professor Pigou has aptly remarked: "It is not wonder, but the social enthusiasm which revolts from the sordidness of mean streets and the joylessness of withered lives, that is the beginning of economic science."<sup>2</sup> The mere existence of an extremely complicated mechanism which led to some kind of co-ordination of the independent action of individuals was not sufficient to arouse the scientific curiosity of men. While the movement of the heavenly bodies or the changes in our material surroundings excited our wonder because they were evidently directed by forces which we did not know, mankind remained—and the majority of men still remain—under the erroneous impression that, since all social phenomena are the product of our own actions, all that depends upon them is their deliberate object.

It was only when, because the economic system did not accomplish all we wanted, we prevented it from doing what it had been accomplishing, in an attempt to make it obey us in an arbitrary way, that we realised that there was anything to be understood. It was only incidentally, as a by-product of the study of such isolated phenomena, that it was gradually realised that many things which had been taken for granted were, in fact, the product of a highly complicated organism which we could only hope to understand by the intense mental effort of systematic inquiry. Indeed, it is probably no exaggeration to say that economics developed mainly as the outcome of the investigation and refutation of successive Utopian proposals—if by "Utopian" we mean proposals for the improvement of undesirable effects of the existing system, based upon a complete disregard of those forces which actually enabled it to work.

#### IV

Now, since economic analysis originated in this way, it was only natural that economists should immediately proceed from the investigation of causal interrelationships to the drawing of practical conclusions. In criticising proposals for improvement, they accepted the ethical postulates on which such proposals were based and tried to demonstrate that these were not conducive to the desired end and that, very often, policies of a radically different nature would bring about the desired result.

Such a procedure does not in any way violate the rule, which Professor Robbins has recently so effectively impressed upon

<sup>2</sup> *Economics of Welfare*, 4th ed., 1932, p. 5.

us, that science by itself can never prove what ought to be done. But if there is agreement on ultimate aims, it is clearly scientific knowledge which decides the best policy for bringing them about. No doubt the economist should always be conscious of this distinction; but it would certainly have been nothing but intolerable pedantry if, in discussing practical problems, the economist had always insisted that science by itself proves nothing, when in fact it was only the newly gained knowledge which was decisive in bringing about the change in their attitude towards practical affairs.

The attitude of the classical economists to questions of economic policy was the outcome of their scientific conclusions. The presumption against government interference sprang from a wide range of demonstrations that isolated acts of interference definitely frustrated the attainment of those ends which all accepted as desirable.

## V

But the position of the young science which led to conclusions so much in conflict with the result of more primitive reflections, was bound to become difficult as soon as—following its first triumphant success—it became more conscious of its remaining defects. And those who disliked its conclusions were not slow in making the most of all the defects they could find. It was not the practical preoccupations of the economist which were responsible for this result. It is by no means certain that economics would have been less disliked if economists had been more careful to distinguish the pure theory from the more applied parts of their conclusions. It is true that economics was contemptuously dubbed a mere utilitarian science because it did not pursue knowledge for its own sake. But nothing would have aroused more resentment than if economists had tried to do so. Even to-day it is regarded almost as a sign of moral depravity if the economist finds anything to marvel at in his science; i.e. if he finds an unsuspected order in things, which arouses his wonder. And he is bitterly reproached if he does not emphasise, at every stage of his analysis, how much he regrets that his insight into the order of things makes it less easy to change them whenever we please.

The attack on economics sprang rather from a dislike of the application of scientific methods to the investigation of social problems. The existence of a body of reasoning which

prevented people from following their first impulsive reactions, and which compelled them to balance indirect effects, which could be seen only by exercising the intellect, against intense feeling caused by the direct observation of concrete suffering, then as now, occasioned intense resentment. It was against the validity of such reasoning in general that the emotional revolt was directed. Thus, temporarily, social enthusiasm succeeded in destroying an instrument created to serve it because it had been made impatient by the frequent disappointments which it had occasioned.

It is not to be denied that, at this early stage, economists had not yet become quite conscious of the precise nature of their generalisations. Nor can it be questioned that on some points, such as the theory of value, they proceeded on very unsatisfactory general assumptions. To what extent the actual foundations of the classical system were influenced by the fashionable philosophy of the day has been made clear by the distinguished author of *Philosophy and Political Economy*. But the abandonment *en bloc* of analytical economics was mainly due, not to the detection of faults in the foundation of concepts but to the fact that, just at the time of this revolt, what professed to be a substitute method of analytical reasoning offered itself to the more practical-minded economist—a method which, from their point of view, had none of the objectionable features of the existing body of economics. I refer to the methods of the famous Historical School in Economics. Although in the proper sense of a school aiming at the *replacement* of theoretical analysis by description, this is now a thing of the past, yet it is of tremendous historical importance because of its influence on popular thought at the present time.

It is clear that anything which justified the treatment of practical problems as something unique, determined only by their own historical development, was bound to be greeted as a welcome relief from the necessity of controlling emotions by difficult reasoning. It was just this advantage which the historical method afforded. Refusing to believe in general laws, the Historical School had the special attraction that its method was constitutionally unable to refute even the wildest of Utopias, and was, therefore, not likely to bring the disappointment associated with theoretical analysis. Its emphasis on the unsatisfactory aspects of economic life, rather than upon what was owed to the working of the existing system, and what would be the consequences if we tried directly

to control some of the recognised evils, strongly recommended it to all those who had become impatient.

## VI

For a considerable time, mainly during the last third of the nineteenth century, the two schools which now existed not only employed different methods, but also turned their attention to different problems. The more theoretically minded had to concentrate rather on the revision of the fundamental principles which had been damaged by decades of attack, and had to leave the more applied parts to others who were coming more and more under the influence of the historical method. So long, however, as this part of the task was left to men who had previously become acquainted with the general principles of analysis—and who were, therefore, immune from the more popular fallacies—the full effect of this change did not become apparent. The distinguished economist to whose memory this chair is dedicated, and with whose long and fruitful career Professor Gregory has made us familiar, offers a conspicuous example of the nature of this change. Thomas Tooke could never have become one of the leaders of the free trade movement in his early years, and remained its lifelong advocate, if he had applied to the problems of international trade the same purely inductive methods which, in his later years, he considered as exclusively decisive in the discussion of monetary problems.

As so frequently happens, it was only in the second generation of the new school that the lack of the tools necessary for the interpretation of the intricate phenomena they were busy describing, made itself felt. And so it came about that, just at the time when the theorists were most successful in constructing a sounder analytical basis for their science, the superstructure of more concrete applications which had been left in the hands of the more practical-minded men, fell gradually, more discredited than disproved, into oblivion. And, in consequence, many of the palliatives and quack remedies which, in the past, had been rejected because, even judged by the analysis of the classical system, their indirect effects were seen to be obviously more objectionable than their immediate benefits, were introduced by the new generation of historical economists, until the reaction was carried to a point at which the futile attempts to redress special grievances by short-sighted State action could hardly have been more

numerous if an analytical science of economics had never existed. It is no accident that the return of protectionism which followed the free-trade era of the nineteenth century was the work of men under the influence of this school.

## VII

It takes a long time to rebuild the structure of a science if one starts by revising the fundamental concepts. And the modern revisions of theoretical economics has occupied sufficient time to allow what was at first the heretical view of a number of radical economists—who had to fight what was then the conservatism of the practical men who were still under the influence of economic liberalism—to pervade the thought of the public and to establish itself as the dominating doctrine, not only among advanced social reformers, but even among the most conservative business men. The public mind in all the leading countries of the world is now completely under the domination of the views which spring from the revolt against the classical economics of seventy years ago.

But, in the meantime, theorists have carried their work to a more realistic stage and have discovered with surprise how often the older writers, with their cruder instruments, had come to the right conclusions with regard to the concrete problems of the day. And this advance of theoretical reasoning has been borne out by the practical experience of our time. Times of great upheaval sometimes afford clearer demonstration of the broad principles of economic analysis than times when the movement of things is much less perceptible. In what, following a phrase used by Alfred Marshall in a similar connection regarding the Napoleonic period,<sup>3</sup> we may call the temporary return of Europe to a reign of violence, the old doctrines have been once more tested; and while the descriptive-interventionist school had nothing to contribute, many of the classical maxims have emerged with renewed credit.

But while the task of the historical economist was comparatively simple because what he had to say on all problems of policy was not, and could not be in any way, different from what the man in the street would want if he had never heard of economics; i.e. while the task of the historical school could be accomplished by simply waiting until the public had forgotten what it had previously learned, the task of the theoretical economist is a much more difficult one. It consists

<sup>3</sup> *Industry and Trade*, p. 674.

essentially in the demonstration of inconsistencies in a kind of ordinary reasoning which everybody employs and the validity of which no one would ever doubt were it applied to simple cases where it can easily be understood. The difficulty really arises from the fact that the same kind of reasoning from familiar and undoubted facts, which even those who are most scornful of theoretical reasoning cannot avoid applying to simple cases, becomes suspect and calls for empirical confirmation as soon as it is applied to somewhat more complicated phenomena where it cannot be followed without some effort, or even special training.

And yet it is nothing but this that the economist does. By combining elementary conclusions and following up their implications he gradually constructs, from the familiar elements, a mental model which aims at reproducing the working of the economic system as a whole. Whether we use as a basis facts which are known from everyday experience, or facts which have been laboriously collected by statistical or historical research, the importance and the difficulty of this further task remains the same, and the only test of its usefulness as a tool of interpretation is whether, by impeccable logic, it yields a model which reproduces movements of the type which we observe in the modern world. Only when we have carried to its logical conclusion this task of fitting the known parts together, so that we realise all the implications of their co-existence, are we able to say whether the known facts from which we have started are sufficient for the explanation of the more complicated phenomena.

This process of reasoning might, of course, have been carried out by some superhuman master-mind in a second, just as the whole structure of mathematics might be deduced from a few fundamental axioms. But, in fact, its development has been the slow and gradual work of generations. But the very fact that economic theory consists merely of ordinary reasoning from commonly known facts—but carried beyond the point at which it is immediately obvious, and even beyond the point which an ordinary thinker would reach unaided by the work of earlier generations of economists—makes it very difficult for the non-economist to believe that economics can teach him anything. It explains why he is always likely to feel injured if the economist implies that there are interrelations between things which he does not see; and why the economist—unlike the practitioners of the other sciences—is almost

expected to apologise if he disagrees with the more hastily reached conclusions of lay thought. What is even more resented is the mental shorthand and the conventional formulæ which the economist uses as an indispensable part of his technique, in place of the explicit development on every occasion of all his arguments—a process which, of course, would be inimical to the formulation of any conclusions whatever.

## VIII

Now, pursued in the way I have explained, economic analysis provides particular answers to particular questions. But it does more than this. By bringing out the interdependence of the particular phenomena, one upon the other, it provides insight of a much wider character: an insight into the nature of the economic system as a whole, which affords a refutation of the more naïve beliefs regarding economic phenomena, to which minds trained in purely descriptive disciplines seem subject. It is exceedingly difficult to explain this in a form which is unexceptionable. But it is necessary to understand it if we are to comprehend the general effects which preoccupation with theoretical analysis tends to have upon the attitude of the economist to practical questions. Let me try to make it clear.

From the time of Hume and Adam Smith, the effect of every attempt to understand economic phenomena—that is to say, of every theoretical analysis—has been to show that, in large part, the co-ordination of individual efforts in society is not the product of deliberate planning, but has been brought about, and in many cases could only have been brought about, by means which nobody wanted or understood, and which in isolation might be regarded as some of the most objectionable features of the system. It showed that changes implied, and made necessary, by changes in our wishes, or in the available means, were brought about without anybody realising their necessity. In short, it showed that an immensely complicated mechanism existed, worked and solved problems, frequently by means which proved to be the only possible means by which the result could be accomplished, but which could not possibly be the result of deliberate regulation because nobody understood them. Even now, when we begin to understand their working, we discover again and again that necessary functions are discharged by spontaneous institutions. If we tried to run the system by deliberate regulation, we should have to invent

such institutions, and yet at first we did not even understand them when we saw them.

Unfortunately, this oldest and most general result of the theory of social phenomena has never been given a title which would secure it an adequate and permanent place in our thinking. The limitations of language make it almost impossible to state it without using misleading metaphorical words. The only intelligible form of explanation for what I am trying to state would be to say—as we say in German—that there is *sense—Sinn*—in the phenomena; that they perform a necessary *function*. But as soon as we take such phrases in a literal sense, they become untrue. It is an animistic, anthropomorphic interpretation of phenomena, the main characteristic of which is that they are not willed by any mind. And as soon as we recognise this, we tend to fall into an opposite error, which is, however, very similar in kind: we deny the existence of what these terms are intended to describe.

It is, of course, supremely easy to ridicule Adam Smith's famous "invisible hand"—which leads man "to promote an end which was no part of his intention." But it is an error not very different from this anthropomorphism to assume that the existing economic system serves a definite function only in so far as its institutions have been deliberately willed by individuals. This is probably the *last* remnant of that primitive attitude which made us invest with a human mind everything that moved and changed in a way adapted to perpetuate itself or its kind. In the natural sciences, we have gradually ceased to do so and have learned that the interaction of different tendencies may produce what we call an order, without any mind of our own kind regulating it. But we still refuse to recognise that the spontaneous interplay of the actions of individuals may produce something which is not the deliberate object of their actions but an organism in which every part performs a necessary function for the continuance of the whole, without any human mind having devised it. In the words of an eminent Austrian economist, we refuse to recognise that society is an organism and not an organisation<sup>4</sup> and that, in a sense, we are part of a "higher" organised system which, without our knowledge, and long before we tried to understand it, solved problems the existence of which we

<sup>4</sup> Mises, *Gemeinwirtschaft*, Jena, 1923, p. 280 *et seq.* (second edition, 1932, p. 265).

did not even recognise, but which we should have had to solve in much the same way if we had tried to run it deliberately.

## IX

The recognition of the existence of this organism is the recognition that there is a subject-matter for economics. It is one of the causes of the unique position of economics that the existence of a definite object of its investigation can be realised only after a prolonged study and it is, therefore, not surprising that people who have never really studied economic theory will necessarily be doubtful of the legitimacy of its existence, as well as of the appropriateness of its method. A real proof for all I have said and for all the economist contends can, therefore, be given only by means of a complete exposition of his science. Hence I must content myself here with illustrating the meaning of what I have said by means of a few general references and one more concrete example.

In the whole body of economics, there is probably no part which shows better how our inability to understand the working of the existing system leads to dissatisfaction with it and also to action which can only make the situation worse, than that most difficult part, the theory of capital and interest. It is in this field that, during the past fifty years, decisive advances have been made which have put on a sound basis much that was divined rather than demonstrated by the earlier economists. I do not think that this belief—as might, perhaps, be suspected—is due to a personal predilection for those problems. It is, of course, true that I should not be standing here to-day if I had not had the good fortune to receive my training in economics in an atmosphere which was still full of the influence of the man to whom these advances are mainly due. And if I needed anything to remind me of this, the presence in the chair of the distinguished economist to whom the introduction of these doctrines into the English-speaking world is chiefly owing, could not fail to make me vividly conscious of the situation.

But I think that there is ample objective evidence of the extraordinary part which this theory has played in the progress of our insight into the economic process. There is probably no better instance of how the study of economic theory compels socialist thinkers to realise that, in their attempts to construct a positive plan of their ideal society, they can solve some of the main problems in no better way than by copying

as closely as possible even what seemed to them before some of the most objectionable features of the existing system—including interest. And, on the other hand, there can be little doubt at the present day that the prevalent tendency to discredit the accumulation of wealth, to belittle the need for capital, and to discourage saving—not only in times of depression—which is clearly an effect of the lack of understanding of the functions of capital, is one of the main destructive forces leading the world to misery.

Let me try to state in more detail an example which is typical of the errors in reasoning which lead, in most cases, to the demand for planning. It has the rare advantage of being capable of explanation in few words. For a most impressive array of further examples of a similar nature, I need only remind you of the last inaugural address of an economist at this School—that of Professor Plant—delivered at the beginning of last session. My example relates to the theory of technical progress and depreciation. In the popular discussion of competitive capitalism, it is often complained that entrepreneurs go on using obsolete machinery when better machines are available. Side by side with such complaints are others to the effect that capital is “wasted” by replacing existing machinery when it is still fit for many years’ use. Each of these obviously incompatible criticisms is made a plea for centralised planning. Each implies that competition leads to uneconomic production which a wise planner would avoid. Closer analysis, however, reveals the fact that either of the alternatives which the intelligent planner is supposed to adopt would lead to a waste of resources, and that the wisest thing he could do would be to bring about, by delicate regulation, what is accomplished spontaneously by competition. It reveals, too, that he would lack the most important guide to such action which the competitive system affords.

In either case, of course, what we want to do is to make the best possible use of the available resources. And whatever criterion we adopt as to the relative importance of different needs, this means that a given result ought, in every case, to be obtained with the least possible sacrifice of other ends.

In the case under consideration, competition will obviously mean that the new invention will be introduced in *all* cases where it reduces current costs of production; i.e. where the cost of the capital required for the new invention is smaller than the saving on other costs made possible by the new

machinery; and it will be introduced *only* in such cases. But the cost of capital, as well as other costs (such as the wages of labour) which are saved, is evidently determined by the competing demand from other industries. This in fact means, in the first place, that our problem is to determine whether, and to what extent, in the industry in question, labour (or other factors which can be used elsewhere) is to be replaced by new capital; and secondly, that the question depends upon the relative addition to the total product which either of these two will contribute elsewhere. If the cost of capital—interest and amortisation—invested in it is less than the cost of the other factors it replaces, the new machinery will be introduced *not* in order to do the work of machinery which is already in existence, but because it does that work *plus* the work of a quantity of other factors which will produce elsewhere more than the new capital could have done. It is obvious that a wise planner would have to act on the same principles, and that he could only do so on the basis of a given rate of interest, expressing the productivity of capital. But it is difficult to see how this could be obtained save by a competitive capital market. The best the dictator could do in such a case would be to imitate as closely as possible what would happen under free competition. Yet having regard to the extent to which legislative action is demanded, at the present time, to protect invested capital against obsolescence caused by the introduction of more modern technical methods, it is not possible to be very optimistic about the outcome.

## X

This example of analysis will, perhaps, be sufficient to explain why the economist will come to very different conclusions from those reached by those to whom economic phenomena represent a number of independent events, explained by their individual historical causes, and in no way implied by the inherent logic of the system. This does not by any means imply that the economist will arrive at a purely negative attitude towards any kind of deliberate interference with the working of the system. But it may, and very likely will, mean an almost consistently negative attitude towards those proposals for interference which are not based upon an understanding of the working of the system; namely, the proposals which spring most readily and regularly to the lay mind. Further, in view of the incomplete nature of our knowledge, it will mean that, in all doubtful cases,

there will exist a presumption against interference. However, this by no means does away with the positive part of the economist's task, the delimitation of the field within which collective action is not only unobjectionable but actually a useful means of obtaining the desired ends. Unfortunately, at the present time, as at the time when theoretical economics was first in the ascendancy, the effects of an extensive State activity which is based upon a quite inadequate understanding of the coherence of economic phenomena are so preponderantly more harmful than the absence of any new form of State activity which he might like to suggest, that the economist is, in practice, almost inevitably driven into a mainly negative position. But it is certainly to be hoped that this practical necessity will not again prevent economists from devoting more attention to the positive task of delimiting the field of useful State activity.

There can be no doubt that after Bentham's early distinction between the *agenda* and the *non-agenda* of government, the classical writers very much neglected the positive part of the task and thereby allowed the impression to gain ground that *laissez-faire* was their ultimate and only conclusion—a conclusion which, of course, would have been invalidated by the demonstration that, in any single case, State action was useful. To remedy this deficiency must be one of the main tasks of the future.

## XI

But while I certainly do not wish to minimise this part of the economist's task, I still think that our present knowledge justifies us in saying that the field for rational State activity in the service of the ethical ideals held by the majority of men is not only different from, but is also very much narrower than is often thought. It is, of course, on this point that an increasing number of economists so completely disagree with the current popular opinion which considers a progressive extension of State control as inevitable.

Characteristically enough, this belief in the inevitability of more State control is, in most cases, based not so much upon a clear notion of the supposed advantages of planning as upon a kind of fatalism: upon the idea that "history never moves back"—another legacy of the belief in historical laws which dominated the thinking of the last two generations. But in an age where we are rapidly returning to the conditions of mercantilism, this argument against the possibility of a return to condi-

tions similar to those existing sixty years ago is probably bound to lose its force. More important is the fact that the other source of the belief in the inevitability of the ultimate victory of planning, the conviction that, since where there is no directing will there must be chaos, deliberate planning will necessarily mean an improvement on existing conditions, is more and more recognised to be the result of our insufficient understanding of the existing system.

I have discussed planning here rather than its older brother socialism, not because I think that there is any difference between the two (except for the greater consistency of the latter), but because most of the planners do not yet realise that they are socialists and that, therefore, what the economist has to say with regard to socialism applies also to them. In this sense, there are, of course, very few people left to-day who are not socialists.

Indeed, it seems to me to be almost inevitable that, on the basis of such economic ideas as are imbibed as part of the general education of the day, every warm-hearted person, as soon as he becomes conscious of the existing misery, should become a socialist. This has certainly been the experience of a great many economists of the younger generation to whom, when they took up their study, economics meant little else but more information about these deplorable facts which cried aloud for a remedy. But the conclusion to which the study of economics leads some of them seems so violently in contrast with the reasons which led them to embark upon their study of economics that most people conclude that their ethical standards must have undergone a complete change. It is, indeed, one of the interesting facts of the present time that a growing number of economists of the younger generation who have not the slightest sentimental attachment to conservatism—and many of whom began as socialists—feel more and more compelled by their reasoning to take a conservative attitude towards many problems—or rather an attitude which, a generation ago, would have been called conservative. And this happens with men who not only have all possible sympathy with the ethical motives from which economic radicalism springs, but who would be only too glad if they could believe that socialism or planning can do what they promise to do, because they probably realise better than any non-economist that, for a considerable time at least, development will tend in this direction and will be revised, if ever, only at the cost of bitter experience and grave disillusionment.

That such an intellectual reaction is on the way and that it is not merely the experience of one or two individuals is perhaps somewhat difficult to see if one looks at a single country; but it becomes fairly clear if one compares countries in different phases of development of economic thought. If one compares, for example, Germany, where the influences which led to the decline of analytical insight originated, with, say, the United States, where they have been felt only in comparatively recent times, or even with England—which, in this respect, occupies a kind of intermediate position—one cannot help noticing how far the cycle has already swung round in Germany and how completely the relative position of the intellectual radicals and popular opinion have changed. In Germany—and to a certain extent in England also—the people who call for a further extension of governmental control of economic life have certainly ceased to be in any way intellectual path-breakers. They are most definitely the expression of the spirit of the age, the ultimate product of the revolutionary thinking of an earlier generation. To recognise their position in this respect, of course, does nothing to decide the question whether the future belongs to them—as it well may. But it throws an interesting light on the rôle played by the progress of knowledge in this development. For, whatever we may think about particular problems, there can be no doubt that recent additions to knowledge in this respect have made the probability of a solution of our difficulties by planning appear less, rather than more, likely. What seemed minor difficulties to the economist of a generation ago, have since been recognised—by socialists as well as by non-socialists—as crucial problems which some may, perhaps, hope to solve in the future, but the complete neglect of which certainly invalidates much of the popular confidence of the present.

And so I come back to the point from which I started—the isolation of the contemporary economist and the refusal of modern progressivism to avail itself of the knowledge he can provide—a knowledge which is the product of the only persistent attempt systematically to explore the possibilities of change. The peculiar historical development which I have sketched has brought it about that the economist frequently finds himself in disagreement in regard to means with those with whom he is in agreement with regard to ends; and in agreement in regard to means with those whose views regarding ends are entirely antipathetic to him—men who have never felt the urge to reconstruct the world and who frequently support the forces of

stability only for reasons of selfishness. In such a situation, it is perhaps inevitable that he should become the object of dislike and suspicion. But if he recognises the circumstances from which they spring, he will be able to bear them with patience and understanding, confident that he possesses in his scientific knowledge a solvent for differences which are really intellectual, and that although, at present, his activities have little effect, yet in course of time they will come to be recognised as serving more consistently than the activities of those he opposes, the ends which they share in common.