

MILL, LIBERTY AND THE FACTS OF LIFE

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Working Paper 2001-2

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Abstract: This paper examines John Stuart Mill's discussion of economic liberty and individual liberty, and his view of the relationship between the two. It explores how, and how effectively, Mill developed his arguments about the two liberties; reveals the lineages of thought from which they derived; and considers how his arguments were altered by political economists not long after his death. It is argued that the distinction Mill drew between the two liberties provided him with a framework of concepts which legitimised significant government intervention in economic matters without restricting individual liberty.

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"[T]he so-called doctrine of Free Trade [...] rests on grounds different from, though equally solid with, the principle of individual liberty asserted in this Essay. [...] As the principle of individual liberty is not involved in the doctrine of Free Trade, so neither is it in most of the questions which arise respecting the limits of that doctrine" (*On Liberty*, pp.116-117).

When contemporary liberals read their own views back into John Stuart Mill they often claim to see a liberalism that goes all the way down – one that permeates his moral, political and economic thought. When they look up and notice tensions, near-contradictions, or differences in the way Mill talked about liberty in each of these spheres, they have then to decide whether he was confused, inconsistent or hopelessly eclectic. It may just be that the problem lies less in Mill than in the general presumption that the *same* vision of liberty runs through all of his thought.

That Mill's discussions of liberty contain a fundamental disjuncture has of course not gone unnoticed. In a famous essay entitled "Individualism: true and false" (1946), Hayek drew a sharp distinction between what he called a 'false' rationalistic individualism as exemplified (he claimed) by the English utilitarians and the French physiocrats, and a 'true' anti-rationalistic individualism which he associated with Adam Ferguson, Smith, Burke and Tocqueville. To 'false' individualism Hayek attributed illiberal political tendencies, while to 'true' individualism he attributed genuine political liberty. What is interesting about Hayek's dichotomy is that it located John Stuart Mill in both camps (1946, pp.11 & 28) and accurately recognized the existence of a disjuncture in Mill's discussion of liberty. Of course, according to Hayek, Mill's opinions were to be understood as a confusing mixture of earlier contrasting traditions, so that they had the dual consequence of obscuring from view the 'true' character of individualism (1946, p.26) and of giving individualism a bad name (1946, p.11).

In another influential reading of Mill, Gertrude Himmelfarb highlighted the same disjuncture in Mill's argument. Like Hayek, Himmelfarb seems to have been interested in recovering from Mill what she took to be a more "temperate, humane, capacious liberalism" (1974, p.xxii) whose luminaries included Montesquieu, Burke, Tocqueville and the Founding Fathers (1974, p.337). The strategy she deployed to arrive at essentially the same conclusion as Hayek, however, was rather different. Himmelfarb held that Mill never intended to extend "the one very simple principle" of *On Liberty* to all forms of social action, and she called attention instead to the other Mill whose thoughts on liberty were expressed in different works. This other Mill, she argued, placed significant weight on the positive functions of society, government and the state in enforcing moral values (1974, pp.336). On Himmelfarb's reading, then, Mill's discussions were less a misleading mixture of opposing traditions than two quite separable arguments about liberty between which contemporary liberals must choose.

While it is true that there are two arguments about liberty in Mill's work, it can be argued that their sources and implications are different from those either Himmelfarb or Hayek would have us believe. They should be seen neither as a confusing mixture nor as an inconsistency requiring us to choose between opposed and incompatible views.¹ Instead, Mill's arguments appear to originate, in part, in a distinction he drew within both his science of politics and his science of political economy between what might usefully be called 'matters of opinion' and 'matters of fact' -- and the methods of analysis appropriate to each. This distinction runs deep in Mill's

thinking. Once it is recognised, it becomes possible to understand and account for many of Mill's complex commitments to liberty.

It helps to explain, for example, his praise of laissez-faire on the one hand, and his sympathies with socialism on the other. It clarifies why he valued free competition in the market place for ideas, but warned of the destructive effects of competition on character and culture in the market place for commodities. It reconciles his fear of the encroachments of a paternalist state with his advocacy of expansive government as an enabler of both economic and moral progress. In short, the key to understanding the complexities of Mill's arguments about liberty appears to turn on tracing the differing scope of his science of politics and political economy respectively, and revealing the qualitatively different character of the argumentation and conclusions of each.

The aim of this paper, therefore, is to examine Mill's account of economic and moral life, and to consider Mill's theories of politics and political economy in relation to the views of other utilitarians and classical political economists. The interest here is neither in evaluating varieties of liberalism, nor in determining whether it is better to treat ideas about economic liberty and individual liberty as being closely connected or disjoint. Instead, our intention is to consider how, and how effectively, Mill was able to develop his arguments about liberty; to reveal the lineages of thought from which they might have derived; and to show how his arguments were altered by political economists not long after his death.

1. Individual freedom, the freedom of trade and the 'facts' of economic life

The grounds upon which Mill felt that it was possible to draw so clear a distinction between the discussion of the two liberties is bound up with his particular conception of the relation between the sciences of politics and political economy, as well as with his vision of the distinctive character of the science of political economy itself. While political economy and the science of politics were both moral sciences, they differed significantly in their reach. Political economy was to be conceived narrowly; as a science that studied the acquisitive behaviour of wealth-seeking individuals. Mill described it as one concerned exclusively with man "as a being who desires to possess wealth, and who is capable of judging of the comparative efficacy of means for obtaining that end" (1836, p.137). Furthermore, according to Mill, the predictions of political economy involved only those "phenomena of the social state as take place in consequence of the pursuit of wealth" or, what amounts to the same thing, the economic behaviour of individuals in a *competitive market*. In this manner, Mill was able to claim that political economy abstracted from "every other human passion or motive; except those that may be regarded as perpetually antagonizing to the desire of wealth, namely aversion to labour and desire of the present enjoyment of costly indulgences" (1836, pp.137-8; see also 1872, VI.ix.§3).

It was for this reason that Mill maintained that "with respect to those parts of human conduct of which wealth is not even the principal object, [...] Political Economy does not pretend that its conclusions are applicable" (1836, p.139). In so describing economic man, Mill was insistent on its status as an abstract construct; one that was instrumental to the analysis of market behaviour, but that nevertheless remained "an arbitrary definition of man" (1836, p.144).ⁱⁱ While necessary to the science of political economy, this model of man was far too attenuated to form the basis of a broader science of politics. For Mill, that science was concerned with the larger and "permanent interests of man as a progressive being" (1859, p.16) rather than with man as a "trampling, crushing, elbowing" market participant (1871, IV.vi. §2). In this way, the science of politics, which embraced "every part of man's nature, in so far as influencing the conduct or condition of man in society", became for Mill the "foundation of practical politics, or the art of government, of which the art of legislation is a part" (1836, p.136).ⁱⁱⁱ

Mill's claim was that the laws of the market take on the character of the laws of the natural sciences (1872, VI.ix. §3; see also 1836, p.125). They are “abstract truths” (1836, IV, p.329) and “errors in political economy” are not in any simple sense “the rejection of any practical rules of policy which have been laid down by political economists,” but rather they demonstrate “ignorance of economic facts, and of the causes by which the economic phenomena of society as it is, are actually determined” (1879, V, p.727). Just as the principle of gravitation deals with the facts of the physical world, for Mill the principles of political economy deal in the facts of the economic world. Politics, however, does not share this particular feature with political economy. The market place for political ideas is not governed by abstract laws or principles. It is governed by opinion – and the only principle operative in it, Mill argues, is that no opinion should remain unchallenged.

In his theory of political economy, Mill narrowed the science of society to the famous fiction of *homo economicus* and to the competitive system which alone gives content to that fiction. This is why, for Mill, the doctrine of free trade was “not involved in” and “rests on grounds different from” arguments pertaining to individual liberty drawn from his science of politics. In this latter science, where Mill considers man in his largest sense as a progressive being, the principles to be derived from politics are of a qualitatively different character from those drawn from political economy.

Mill's own examples in this regard illustrate the distinction he had in mind. In *On Liberty*, while repeating the refrain that “restrictions on trade [are] restraints” and that “all restraint, *qua* restraint, is an evil” (1859 p.116), Mill was clear that legitimate limitations to economic liberty existed. For example, regulation of product quality and those affecting health and safety at work were legitimate, because they “affect only that part of conduct which society is competent to restrain, and are wrong solely because *they do not really produce the results which it is desired to produce by them*” (1859, p.116-117; italics added). Of course, Mill warned that it was necessary not to mistake questions putatively concerning economic liberty for ones which were instead “essentially questions of liberty” (1859, p.117). He cited as examples of such confusion, the Maine prohibition law, restrictions on importation of opium and laws restricting the sale of poisons.

In these cases, interference clearly had a moral not an economic purpose. The real subject of such restrictions was not the seller but the buyer. The action restricted was not purchasing, but consuming alcohol, hence it became the restriction of a personal not a social action. Therefore, according to Mill, if such restrictions as the Maine law produced were thought to diminish economic liberty it was not because they interfered with free trade, but because could not produce the results intended (e.g. temperance). However, Mill also clearly believed that such restrictions raised larger moral questions of individual liberty -- of “how to make the fitting adjustment between individual independence and social control” (1859, p.9-10).

For Mill, two criteria now determined legitimate government intervention in the economic sphere: that it is desirable as a matter of fact (the subject of the science of political economy) rather than of opinion; and that the results of such intervention could actually be achieved through government agency. These two criteria served to separate the arena of those individual and political liberties protected from intrusion on moral grounds in *On Liberty*, from that larger sphere of social and market life. However, in this latter sphere, Mill could also envision -- and actually proposed -- State intervention on economic grounds, *even in matters of moral life*.

While it is true that almost everything Mill wrote in *On Liberty* demonstrates his desire to protect the individual from the accretion of State power, it is also true that the principal liberties at stake for Mill are limited to ones of personal belief, opinion and the conceptually difficult category of purely self-regarding action. (1859, p. 110) In the case of economic life and the inherently other-regarding actions of market exchange, Mill deployed a different kind of argument concerning the legitimacy of state action. The limits to government intervention in economic affairs were not to be established simply by an appeal to an ideological presupposition against it, but by consulting the facts (an appeal to the laws of political economy) and the efficacy of intervention. Moreover, if consistent with the ‘facts’ and efficacious, even state intervention in the moral sphere could be justified.

For example, while it might at first glance seem surprising for the author of *On Liberty* to propose State regulation restricting early marriage and regulating family size, Mill had no hesitation in doing so: “in a country either over-peopled, or threatened with being so, to produce children, beyond a very small number, with the effect of reducing the reward of labour by their competition, is a very serious offence against all who live by the remuneration of their labour. The laws which, in many countries on the Continent, forbid marriage unless the parties can show that they have the means of supporting a family, do not exceed the legitimate powers of the State” (1859, p.133).

Mill saw the procreative aspects of marriage as falling not only within the purview of other-regarding social action but also, decisively, within the domain of political economy. He called the production of children in excess of the means of supporting them a “mischievous act,” injurious to others (1859, p.132; 1849, p.349-50), and treated the activity as being one of a special kind – the subject of a science – and as governed by Malthusian “scientific” principles. The basis of this view, Mill argued, was to be found in the “facts” about population growth revealed by Malthus in his abstract theory of population and wages. The Malthusian principles of population were thus assumed by Mill to have the status of “fact,” and convinced of the effectiveness of the remedy, Mill was not prepared to turn it down on grounds of non-interference in the moral sphere of the family or the private sphere of sexual practice.^{iv} Indeed, such restrictions on marriage or the denial of additional poor relief in support of children beyond a number supportable at subsistence, were “not objectionable as violations of liberty.”(1859, p.133) State interference in the moral sphere could be legitimated on the grounds of fact and remedial effectiveness alone.

The converse argument was not employed. Economic interference was not legitimated on moral grounds – a feature apparent in Mill’s controversial and evolving stance towards socialism.

It is often suggested that Mill’s later political and economic thought was inspired by some variant of socialism. Frequently cited in such arguments are passages from book four of the *Political Economy* in which Mill outlines a syndicalist-inspired, decentralized and competitive socialist form of commodity production. In earlier writings, Mill had attacked socialism, in part on Malthusian grounds – as a removal of the demand for prudential restraint. However, in a set of papers on Socialism written in 1869 but only posthumously published (1879), this reservation seems to be significantly modified without embracing it as the necessary solution to the Malthusian dilemma which Utopians such as Godwin had proposed: “it is of course open to discussion what form of society has the greatest power of dealing successfully with the pressure of population on subsistence, and on this question, there is much to be said for Socialism; what was long thought to be its weakest point, will, perhaps, prove to be one of its strongest. But it has no just claim to be considered as the sole means of preventing the general and growing degradation of the mass of mankind through the peculiar tendency of poverty to produce over-population” (1879, p.729).

In both his *Autobiography* [1873] and these final chapters on Socialism, Mill shared the concerns implicit in the moral objections offered by Socialist reformers to the competitive market as it then existed: “the greed of rapid gain substitutes itself for the modest desire to make a living;” “more and more of the gambling spirit is introduced into commerce;” “the simplest maxims of prudence are disregarded;” and “all, even the most perilous, forms of pecuniary improbity receive a terrible stimulus” (1879, p.731). Such unhealthy “ramping up” of competition – particularly that between workers – which formed a part of “the meaning of what is called the intensity of modern competition” (1879, p.731) could not be conceived as an analogue of the competition of ideas urged in *On Liberty*. However, Mill was not prepared to reject what he continued to believe were the beneficial aspects of competition to the productive process. That is, he accepted that the “intellectual and moral grounds of socialism deserve the most attentive study” (1879, p.736), but he rejected the general outlines of the socialist critique, on economic grounds, as being “exaggerated” and based on “errors of political economy” (1879, p.727).^v Mill recognised the moral objections of Socialists but he was not prepared to intervene in the economy on moral grounds alone. Rather, it had to be shown that such an intervention could be based on a factual science of political economy [and that it could indeed achieve the effects proposed] and this Mill believed Socialists could not demonstrate.

2. Utility in the science of politics and political economy

Another way to understand Mill's rationale for treating the two liberties in so contrasting a fashion, is to recognize that the utilitarian model of man played a different role in each context. While this model clearly informed Mill's argument in *On Liberty*, its role in Mill's model of the market mechanism is negligible. Indeed, the only role it plays in the economic model is that of providing the underlying rationale for competition. This does not preclude the fact that one may understand Mill's economics as being "utilitarian" in the informal sense that the goal of economic policy was the maximization of the wealth of the nation (and thus with what could be termed the "greatest happiness"). However, this is distinct from the formal model of utilitarianism from which Mill derived the presumption in favour of individual liberty.

The formal logic of that model involves certain presuppositions about the character and behaviour of individual agents. They must have well-defined interests and act rationally, in any given environment, to secure the greatest individual utility possible from their choices. Since the premise of the model is that the aim of individual action is the greatest degree of utility possible, two conditions need to be satisfied: it must be the case that the utility associated with any given action *ex ante* will be realised *ex post*; and that an individual's *ex ante* ranking of the degrees of utility associated with different actions is arrived at under the assumption that information is fully available to all agents. In Mill's language, the first requirement was that of "security"; the second was that of "knowledge". It was the necessary function of government to ensure that the society is one in which both requirements are met. It is in the application of these premises of the principle of utility that many of the most characteristic features of Mill's case for individual liberty emerge.

In particular, the argument that if utility was the ultimate end of human action then liberty was the appropriate means through which it was to be secured, logically entailed a general presumption that individual liberty should be the rule, and interference with it justified only "so long as we do not attempt to deprive others of theirs, or impede their effort to obtain it"(1859, p.18). However, this formal property of the theory, which allowed such exceptions to the rule, created for Mill a significant area for government activity. Security of person and property became a paramount responsibility of the state since "insecurity of person and property, is as much to say, uncertainty

of the connexion between all human exertion or sacrifice, and the attainment of the ends for which they are undergone" (1871, V.viii.1).

Furthermore, the fact that it is necessary for individuals to know in what degree utility is embodied in actions, led Mill to admit further areas for legitimate state restriction of individual liberty. To begin with, the doctrine of individual liberty when grounded in utilitarian theory "is meant to apply only to human beings in the maturity of their faculties" so that "those who are still in a state to require being taken care of by others, must be protected against their own actions as well as against external injury" (1859, p.15). This category included children (1859, p.101), those without "the ordinary amount of understanding" (1859, p.93), and "barbarians" (1859, p.16). In such cases, incomplete knowledge of the consequences of actions mandated another potentially extensive arena of state intervention. For example, it became for Mill almost a "self-evident axiom, that the State should require and compel the education, up to a certain standard, of every human being who is born its citizen" (1859, p.129).^{vi}

In addition to these activities, there exists another class of measures designed to ensure the availability of suitable *means* through which to achieve the maximization of utility. While this is a class of cases somewhat different from those earlier considered (which derived more from a consideration of *ends* than means), certain of the measures allowed under the first heading would also be of service in this domain -- most obviously security of person and property. However, the real target of Mill's discussion here was the necessary function of the government in eliminating what he called "bad social institutions" (1859, p.116) which impeded individuals in the pursuit of their own interests.^{vii}

Having admitted these qualifications to an absolute doctrine of liberty, Mill entered necessarily and immediately into one of the more perilous regions of utilitarian theory. In such cases, where inevitably one agent may gain and another agent may lose, the question arises as to how the principle of utility is to be applied: "As soon as any part of a person's conduct affects prejudicially the interests of others, society has jurisdiction over it, and the question whether the general welfare will or will not be promoted by interfering with it, becomes open to discussion" (1859, pp.92-93). Put in more modern terminology, the question concerns interpersonal comparisons of utility, this time raised in the specific context of Mill's utilitarianism.

To revert for a moment to Benthamite utilitarianism, the answer to this question appears to have been genuinely unambiguous. Interpersonal comparisons were permissible for Bentham, since the principle of utility as a criterion for judging the merits of state intervention was interpreted as referring to the sum total of utilities of individuals in a given society. Thus, or so Bentham claimed, intervention "may be said conformable to [...] the principle of utility when [...] the tendency which it has to augment the happiness of the community is greater than any which it has to diminish it" (1789, I.vii). It is worth noticing that Bentham had been led into this particular formulation of the principle of utility by a rather crude and direct analogy between the well-being of an individual and the well being of the community. Bentham simply applied the core utilitarian proposition, that an individual could be said to be better off if and only if the sum total of that individual's utility increased consequent upon some action, to social utility as a whole (see, for example, 1789, I.ii-iv). It was in consequence of making this hypothesis that Benthamite utilitarianism was led into some of its more celebrated difficulties over the provision of a cardinal index of utility. However, although it is essential to it, the notion of measurable utility appears not to be primary in explaining the source of the Benthamite formulation of utilitarianism.

In Mill's case the question of the role of interpersonal comparisons is not quite so easily resolved. Nevertheless, in this area there is a certain sense in which Mill's arguments represent a

considerable advance over those of Bentham. For example, considering in isolation Mill's discussion of the harm principle, there appears to be evidence to support the contention that interpersonal comparisons of utility were neither used by Mill nor sanctioned by him.^{viii}

In contrast to the systematic application of utilitarian theory to the discussion of individual liberty, was the line of argument followed by Mill in the discussion of economic exchange. There, utilitarian theory fell into the background and an essentially different model of the market -- one in which value, distribution and accumulation were not determined by utilitarian calculation -- took centre stage. According to that account of the economic machine, interferences with economic liberty were not to be determined by appeal to utilitarian theory, but were to be based on whether the economic model confirms or rejects the hypothesis that the effects of any interference are indeed the ones intended. On this line of argument, Mill was led inevitably to acknowledge not only that "the admitted functions of government embrace a much wider field than can easily be included within the ring-fence of any restrictive definition", but also that "it is hardly possible to find any ground of justification common to them all [...] nor to limit the interference of government by any universal rule" (1871, V.i.3).

Mill's economic theory contains several familiar features of the classical mode of thought: the idea of a conventionally-determined subsistence wage; the separability between the study of value and distribution; and the dependence of accumulation on the distribution of income between classes.^{ix} Although, Mill was perhaps less rigorously "logical" in his presentation of the classical theory than was Ricardo, the absence of homogeneity between the elements of cost in this model still meant that for him (as well as for Ricardo), the natural or equilibrium prices of commodities (in contrast to their market, or disequilibrium prices) were not to be determined by the mutual interaction of supply and demand (Mill, 1945). For this reason, natural prices could not possess the property of ensuring an "optimal outcome" in any significant sense of that phrase.^x The absence of demand-supply determined prices -- that is, the absence of the idea that price adjustments are determined by the actions of individual utility and profit maximizing agents -- signals the lack of a formal utilitarian model of action in this part of Mill's theory.

Thus, for example, on the question of the governmental regulation of wages, Mill did not defer to considerations of individual liberty in order to oppose restraint. Instead, his argument was a simple and straightforward application of his particular version of classical wage theory. Arguing that the "rate of wages which results from competition distributes the whole existing wages-fund among the whole labouring population," Mill maintained that even if the government succeeded in "fixing wages above this rate" some labourers would be unable to find employment. Therefore, he concluded that that it was "nothing to fix a minimum of wages, unless there be a provision that work, or wages at least, be found for all who apply for it" (1871, II.xii.1).^{xi}

Similarly, in almost all of the other areas of his political economy in which Mill was led into extensive analysis of the merits of economic liberty (or of legitimate departures from it) he utilised arguments derived exclusively from his science of political economy. This helps to explain why the framework of concepts surrounding his discussion of individual liberty is nowhere to be found in his celebrated discussions of government loan expenditure, combinations among workers, direct government support to private industry, the provision of public goods and the national debt.

3. The two liberties in classical political economy

The obvious place to begin to trace the lineage of Mill's arguments is with his utilitarian forebears, Jeremy Bentham and James Mill. After all, despite Mill's famous second thoughts

about Bentham's formulation of utilitarianism (Mill, 1838), he retained throughout his life a commitment to utility as "the ultimate appeal on all ethical questions" (1859, p.16; see also 1861, p.254). Moreover, despite his youthful rejection of his father's philosophy, he never denied James Mill's intellectual influence (1873, p.143). To the extent that a version of the utilitarian argument permeates almost every sentence that James Mill or Bentham wrote on questions of political liberty, there can be little doubt that the younger Mill was indebted to them not only for the basic logic of the argument of *On Liberty*, but also for the axiomatic assumption -- the ability of men to judge correctly their own interest and to act upon it -- which underpinned the argument. Indeed, Mill's own argument on this subject may be regarded as a sophisticated restatement of Bentham's famous dictum that "each counts for one".

At the level of individual liberty, then, while John Stuart Mill's contribution undoubtedly represents a significant advance on that of Bentham and his father (not least in his distinction between the higher and lower pleasures), there is equally little doubt that it is linearly descended from them. As to whether the younger Mill was likewise following his immediate predecessors in distinguishing the discussion of individual liberty from that concerning the liberty of trade, everything hinges on the character of the arguments offered for freedom of trade by James Mill and Bentham.

In the case of James Mill, the argument for liberty of trade was relatively straightforward. It depended upon whether intervention or freedom of trade secured the most profitable employment of capital. As he argued in the *Elements of Political Economy*, "[i]f it should appear, that production and exchange fall into the most profitable channels, when they are left free to themselves; it will necessarily follow that, as often as they are diverted from those channels, by external interpositions of any sort, so often the industry of the country is made to employ itself less advantageously" (1844, p.197). Like the argument of the younger Mill, this argument does not recur to the formal utilitarian argument for individual liberty, but rather relies upon a model of the operation of the market mechanism, which makes intervention contingent.^{xii}

In contrast, in his *Manual of Political Economy*, Jeremy Bentham quite expressly employed the utilitarian argument of "appropriate knowledge" in order cast doubt on the state's capacity ever usefully to "employ the power of government" in directing economic activity (1793-5, I, p.231). In doing this, he drew on the essentially utilitarian position that such intervention was uncalled for because each economic agent was the best custodian of his own material interests. In doing so, it would appear that unlike the Mills, Bentham did not distinguish between the character of the argument to be made for individual liberty and the liberty of trade. This contrast with the younger Mill is not particularly surprising since Bentham's view of the nature of man presumed a universally acquisitive model equally as applicable to questions of political liberty as it was to economic liberty.

If the foregoing argument accurately captures the contribution of early utilitarian thinking to the position that John Stuart Mill subsequently came to adopt, the extent to which there may also have been a Smithian element in that argument is worth examining. After all, it is in Smith that one finds the first statement of the classical economists' argument for liberty of trade. There is, of course, no doubt that Smith anticipates Mill's belief that "all restraint, *qua* restraint, is an evil". However, in much the same way as Mill, Smith did not allow this belief to take the form of an unqualified principle upon which to determine his position on questions of the liberty of trade. On that subject, he turned to his economic model. Thus, for example, when considering the merits of any given interference with the liberty of trade (whether it be bounties, drawbacks, excise duties or the granting of exclusive privileges), Smith recognized the stimulus that such restrictions would give to particular sectors of the economy, but opposed them on the grounds

that it did not "increase the general industry of society, or [...] give it the most advantageous direction" (1776, IV.ii, p.453).^{xiii}

Despite the fact that Smith and Mill shared the logic of the case for liberty of trade, Smith was patently less willing to permit state intervention in economic affairs to anything like the extent that Mill would later propose. This difference might be traced to the degree to which the so-called doctrine of unintended consequences coloured all of Smith's discussions of social action. This doctrine, together with a nearly-required optimism that such consequences would be uniformly good, profoundly circumscribed for Smith the admissible range of state activity to just three "plain and intelligible" duties: defence, justice and public works (1776, IV.ix, p.687-8).

Mill, of course, having had the advantage of witnessing some of the unintended consequences of capitalist development (many of which Smith himself could not have imagined), was perhaps understandably more amenable to the possibility that direct and intentional collective action for the improvement of the economic condition of the individual was consonant with his model of economic liberty.

This is not to say that there were no strands at all in the arguments of Adam Smith that could be linked to the positions subsequently developed by John Stuart Mill. The moment one considers Smith's *Moral Sentiments*, a precursor can be found to many of Mill's more characteristic arguments concerning the moral value of self-regarding action which distinguished him from Benthamite utilitarianism (see Semmel, 1984, p.48-49). The *Moral Sentiments* consisted essentially of a sustained attempt to demonstrate the ethical character of self-interested action. Indeed, there is a sense in which Smith's task was even more wide-ranging than this way of putting it might suggest. He actually contrived to show that *all* ethically praiseworthy qualities of character -- propriety, virtue, honour, duty, prudence, valour, and the like -- had their basis in self-interest. John Stuart Mill was to repeat the performance more than a century later in *Utilitarianism*.

By resting his model of human nature upon the idea that individuals have a capacity for sympathy, an ability to see themselves as others do and to judge their actions in accordance with the approbation or disapprobation of an impartial spectator, Smith transmitted a potentially powerful political as well as economic message. Thus, when Smith introduced the metaphor of the invisible hand in the *Moral Sentiments*, its effect was not so much to argue that the socially-constructed self of that book acts ethically, as it was to indicate that the uncoordinated actions of autonomous individuals "tend to promote the public welfare" (1759, V.ii.10). Leaving aside the question of whether Smith himself chose to do so, in the hands of others this identification of virtue and self-interest proved sufficient to sustain an argument for liberty in any context.

An argument for economic liberty derived exclusively from the principles of political economy finds, of course, its archetypal expression in the work of David Ricardo. Ricardo's insistence that restrictions on the free importation and exportation of corn were detrimental to the national interest rested entirely on his focus on the net product and its distribution between profits and rent. His argument was that any increase in the price of corn caused by the restriction of free trade would have the effect driving agricultural production to marginal land, raising rents at the expense of profits, and therefore retarding economic growth. Mill's position on the necessity of freedom of international trade, while an advance on Ricardo's position in some aspects, is essentially the same. Indeed, Mill suggested at one point in the *Principles* that his own position was directly derivative from that of Ricardo (1871, III.xvii.2).

Thus, it becomes apparent that while classical economists focused almost exclusively on the development of the economic theory of the *Wealth of Nations* and its application to practical affairs, utilitarian social and political thought developed along different but parallel lines. On this broader front, arguments for expanding individual liberty were being carried forward under the banner of utilitarian theory. Its prophet was Bentham rather than Smith. Despite the fact that the two liberties came into consideration in both contexts, the character and the formal content of the utilitarian argument for individual liberty was quite unlike anything being deployed by the classical economists for free trade.

The distinctive feature of the dual development, which took place in this period, is that it culminated in different conclusions concerning the conditions for state intervention in economic life as opposed to individual moral life. If one begins with utilitarian theory, a general presumption against state intervention could be readily derived -- as we have seen, that model of individual liberty was the means through which to secure the "greatest good". However, the argument of the classical economists for liberty of trade involved no such general presumption. The political economists proceeded by considering individual cases and judging the merits of intervention or non-intervention in each case according to whether they advanced or retarded the wealth of the nation -- a judgement which depended upon the model of the market mechanism rather than the formal application of the utilitarian theory of constrained maximization. In some cases they did; in some cases they did not, but no general rule can be derived from an argument of this kind.^{xiv} Of course, it is true that on some of the most controversial questions of the day, they favoured *laissez-faire* -- a preference from which their reputation as free traders largely derives. However, their positions even on such important practical questions do not generate a general presumption in favour of *laissez-faire* and certainly not one based on the priority of individual liberty.^{xv}

Not to cast this dual development in an excessively rigid mould, since innumerable cross-currents acted to complicate the picture, what seems to have transpired was that the two strands of thought developed in the late eighteenth century by Smith and Bentham were carried forward into the first decades of the nineteenth century by two closely associated, but nevertheless distinct, schools of thought whose membership in some cases overlapped. One consisted of the classical economists, the other utilitarians or philosophical radicals. A failure to recognize this dual development appears to have obscured the clear line of demarcation between the classical economists' case for the liberty of trade and the utilitarian argument for individual liberty. Leslie Stephen's claim that "utilitarian theory was embodied in [classical] political economy" might be considered one example of the failure to appreciate this distinction (1900, II, p.138).

4. The conjunction of individual liberty and laissez-faire

Up to this point, we have considered the separation made by Mill between the two liberties, the ways in which Mill's mode of reasoning concerning these liberties reflected the differences between the moral sciences of politics and political economy, and the extent to which his reasoning was prefigured in the literature of classical political economy. To complete an understanding of Mill's treatment of the two liberties, however, it is necessary to consider a significant instance in Mill's account of economic liberty where this separation was not maintained. A recognition of this fact serves to illuminate the subsequent development in political economy whereby Mill's distinction between the two liberties was collapsed. This instance arises in that part of the fifth book of his *Political Economy* where Mill addressed in the most general way the question of the role of the state in economic affairs; and where the argument appears utilitarian in character.

Mill began this argument with an attempt to enumerate the "general functions of government" in a customarily utilitarian fashion. He claimed that such an investigation aimed to determine how far and into "what departments of human affairs" the state should extend its authority under the supposition "that individuals are the proper guardians of their own interests" (1871, V.i.1-2). The very same problematic, "the nature and limits of the power which can be legitimately exercised by society over the individual," would later become the starting point of *On Liberty*. The formal basis of Mill's analysis of the scope for governmental intervention in book five of the *Political Economy* derives from an application of the same utilitarian theory of action, which he uses in *On Liberty*.^{xvi} It is in the application of this principle of utility that one finds the singular instance in which there is a conjunction of the two liberties.

Just as in *On Liberty*, in book five of the *Political Economy* the protection of person and property was a necessary function of the state. However, this function arose not simply because such security underlies the contractual order of society, but because of the formal requirement of utilitarian theory that there be an unambiguous link between utility foregone and the attainment of the ends for which it was foregone (1871, V.viii.1). This distinction in *On Liberty* hinged on the relationship between the anticipated and realised utility. It was in this context that Mill was led into that lengthy discussion of combination, free association and voluntary contract, which occupies two full chapters of the *Political Economy*. It may be worth noting that Mill drew a sharp distinction between "authoritative" interference of government and government "agency" (1871, V.xi.1) in this context. This is the hallmark of utilitarian theory proper. By restructuring incentives, rather than restricting the freedom of individual action, Mill's preference here for agency is clearly of wider import to the question of liberty than anything that could be derived from purely economic arguments.^{xvii}

Furthermore, in this context one finds Mill basing the extent of economic liberty (the doctrine of laissez-faire) on utilitarian considerations concerning appropriate knowledge: laissez-faire could "never be applicable to any persons but those who are capable of acting in their own behalf" so that where "the individual may be an infant, or a lunatic, or fallen into imbecility" it would be necessary for the state to "look after the interests of such persons" (1871, V.i.2; see also V.xi.9). Similarly, education as a means of providing information about the consequences of actions in terms of utility was "one of those things which it is admissible that a government should provide" (1871, V.xi.8). Here, the education of consumers so that they may correctly judge "the goodness of the commodity" was also a required characteristic of the economy (1871, V.xi.9).

Finally, Mill introduced a class of exceptions to laissez-faire designed to ensure the availability of *means* through which to achieve the maximization of utility, which paralleled the arguments of *On Liberty*. Competitive markets were adduced on these grounds to be essential to economic well-being; leading Mill to advocate the elimination of monopoly, the regulation of externalities, and the provision of public goods. Having admitted an exception to the maxim of laissez-faire in the case of external effects, Mill also entered into an analysis of the question of interpersonal comparisons of utility in *Political Economy* in a way analogous to his discussion of the harm principle.

These arguments seem to stand as the exceptions to Mill's general practice of separating the discussions of individual liberty and the liberty of trade and his explicit arguments for doing so expressed in *On Liberty*. However, such arguments, indicative of the possibilities of collapsing that separation by the application of the utilitarian model of rational choice to economic theory, were to become the rule for others. That elimination of this separation, in the name of a "reductionist" conception of individual liberty more familiar in certain branches of contemporary

economic theory, took root almost immediately after Mill's death in the work of the neoclassical economists.

William Stanley Jevons's *Theory of Political Economy*, which appeared in 1871, exemplified this next generation of neoclassical economists and contained a withering attack on Mill's political economy. Jevons declared the whole trend of classical economic thinking after Ricardo to have developed along the wrong tracks; and for Jevons, Mill's economic theory stood as representative of the errors of the classical school. What is significant for the present discussion about this intervention is that it rejected the very part of Mill's argument upon which his separation of the two liberties largely rested.

In establishing what he took to be the "true system of economics" (1871, p.67), Jevons simply borrowed the utilitarian model of man and employed it as the exclusive basis of a new theory of the market mechanism. By establishing homogeneity between the elements of cost (interpreted as disutility), Jevons was able to show that the relative prices of commodities were determined by their final degree of utility. In a way open neither to Mill nor to the classical school, this equilibrium condition would soon be shown by other neoclassical economists to involve the proposition that the market mechanism produced an efficient or optimal allocation of resources. Jevons declared his theory to be "entirely based on a calculus of pleasure and pain", which he described as "the mechanics of utility and self-interest" (1871, pp.23 & 21). Thus Jevons rejected classical economic theory, wholeheartedly embraced the utilitarian theory of man, and applied that mode as the basis of a new economic theory.^{xviii}

According to neoclassical economics, free exchange became the means through which to secure the most efficient allocation of social resources. The immediate implication of this revolution for the theory of state intervention was that this new economic theory now provided a general presumption (indeed a scientific basis) for the "doctrine" of laissez-faire. The conception of the role of the state in economic affairs, on this presumption, is identical to the conception of its role in questions of individual liberty. That is, interference or non-interference in either context is dependent on the extent to which it infringes upon the ability of individuals to pursue their own interests in their own way.

Of course, this does not mean that neoclassical economics completely closed the space for government intervention. For exactly the same reasons as such intervention was admitted by Mill in his discussion of individual liberty, intervention would be required in the case of this vision of economic liberty. Strategically, Jevons' innovation amounted to very little more than a reproduction of the manner in which Mill discussed the liberty of trade in the single instance in which he conjoined it with the case for individual liberty.

6. Concluding remarks

It may be worth remarking upon a general implication, which would seem to follow from the separability of the two liberties. In the first place, the separation of the two liberties by Mill meant for him that economic intervention could be justified in a way that had no implications for individual liberty. This theme (although submerged by early neoclassical writers such as Jevons) returned to prominence in those varieties of liberalism associated with Keynesian and New Deal interventionist strategies that sprang up in the inter-war years in America and Britain. The logic of an argument within which a strong separability between the two liberties is central implies that the domain of individual liberty would not be compromised by a much enlarged role for government in the co-ordination and control of economic activity. Of course, others were to suggest exactly the opposite. The influential criticisms formulated by Schumpeter and Hayek

suggested that this kind of interventionism was effectively no different from collectivist economic planning and that as such, constituted the greatest threat to liberty. Be that as it may, the doubts that these two writers cast on any form of intervention in the name of individual liberty and which proved to be so influential may perhaps have obscured from view the existence of an alternative liberal vision to be found in John Stuart Mill. In Mill's vision, state action in the economy neither necessarily nor automatically threatened individual freedom.

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ⁱ A considerable industry has been generated over the years around the "two liberties" question. Here our view owes something to Alan Ryan who first proposed to take at face value Mill's self-conscious statement that the case for the two liberties – that is, non-intervention in political/moral and in economic life respectively – might rest on different principles (1970, pp.250-255). Our argument, however, rests on a different analysis of the origins and role of the two liberties in Mill's thought. It remains interesting, that despite considerable attention within the more recent literature on the question of whether Mill's work presents a coherent overall account of liberty, that in most of these discussions an examination of his specifically economic thought has not played a major role. (see, for example, Rees 1985 and Ten 1980). Even where discussion of Mill's political economy is present (for example, in Gray 1996, Donner 1991 and Hamburger 1999), they are not devoted to a comparative analysis of his account of economic liberty versus individual liberty.

ⁱⁱ As far as economic man was concerned, Mill believed that no "political economist was ever so absurd as to supposed that mankind are really thus constituted" (1836, p.139). Whether Mill was quite accurate in his assessment of what other political economists might or might not have thought will not be considered here.

ⁱⁱⁱ Mill uses the terms science of politics, speculative politics and social economy interchangeably (see 1836, pp.135 & 136).

^{iv} Critics of Mill have sometimes held this argument to be inconsistent with his position on freedom of action in sexual matters that would have left both prostitution and homosexuality as activity within the protected sphere of private "self-regarding" liberty [see, for example, the anonymous review of *On Liberty* in the 1859 *National Review*.] However, it is clear Mill drew a distinction between extra-marital sex (in which he encouraged young women in the use of prophylactics) and the production of children within the recognized family unit subject to the benefits and restrictions of the New Poor Law.

^v Mill continues in a reiteration of an argument contained in the *Political Economy*[pp.476-77]: "The present system is not, as many Socialists believe, hurrying us into a state of general indigence and slavery from which only Socialism can save us. The evils and injustices suffered under the present system are great, but they are not increasing; on the contrary, the general tendency is towards their slow diminution. Moreover the inequalities in the distribution of the produce between capital and labour, however they may shock the feeling of natural justice, would not by their mere equalisation afford by any means so large a fund for raising the lower levels of remuneration as Socialists, and many besides Socialists, are apt to suppose" (1879, p.736).

^{vi} Of course, the same logic could be seen to mandate the institutionalization of lunatics and despotic regulation of 'backward societies'. However, it is worth remembering that Mill firmly stated that he was "not aware that any community has a right to force another to be civilized" (1859, p.113).

^{vii} While the problem of monopoly is probably the one Mill had most in mind in this context, in other contexts such 'problem institutions' were thought to include the established church, marriage without the possibility of divorce, and indentured servitude (1871, V.xi.11; 1869, p.285, 293 & 298).

^{viii} Of course, this aspect of the utilitarian model was later reformulated to quite unambiguously exclude interpersonal comparisons by Pareto.

^{ix} We set aside here the question of the status of Mill's economic theory in the history of economic thought (on this point see Hollander, 1985).

^x Of this property of the Ricardian theory of value Mill declared that "there [was] nothing in the laws of Value which [remained] for the present or any future writer to clear up"; indeed, that the "theory of the subject" as Ricardo had it left, was "complete" (1871, III.i.1).

^{xi} It should be noted that this passage was written after Mill's reconsideration (sometimes said to be a recantation) of an earlier statement of the wages-fund theory in his review of Thorton's *On Labour* in 1869.

^{xii} It should be noted, however, that when writing about the physiocratic argument for free trade, James Mill ascribed to them a version of the argument for liberty of trade which applied the formal utilitarian model in a manner suggesting his agreement with it (1818, pp.713-14). This ascription must be weighed against James Mill's own presentation of the free trade argument in his *Elements*.

^{xiii} The logic of Smith's economic argument is relatively straight forward. He investigated the effect of any given restriction upon the pattern of relative prices and the extent to which these prices deviated from their natural level as a result of the interference. Where such deviations occurred, the return to capital invested in different lines of production would differ, resulting in an intersectoral flow of investment. The restraint was judged 'undesirable' to the extent that such flows failed to re-establish long-period natural prices (and the general rate of profit).

^{xiv} This is not to say that the classical economists failed to share certain sentiments concerning the proper limits to state action. Indeed, they all subscribed to a broad consensus which held that state intervention was in some general sense an unnecessary interference with the freedom of individuals to pursue their own interests. In fact, such views were common to the whole school of classical economists and not just to those who were members of its British branch. Sismondi, for example, who as we have already seen drew from his economic theory nothing resembling the general presumption in favour of *laissez faire*, had argued in the quite general context of civil policy that the duty of the state was to ensure for each of its citizens "the benefits of liberty, virtue and knowledge" (Sismondi, 1814, p.39).

^{xv} There can be little doubt that it is in the social and political ideas of the utilitarians, and not in the economic theory of the classical school, that one first encounters an argument capable of providing the basis for a general presumption in favour of *laissez faire*. Not only is the work of the self-styled philosophical radicals exemplary of that argument, but it was also the aspect of the early development of the doctrine of *laissez faire* that played a decisive role in its subsequent movement in economics circles.

^{xvi} Although *On Liberty* appeared in 1859 (a first edition of the *Principles* having appeared in 1848), J.M. Robson suggests that "from the end of 1854 on, manuscripts were either written or drafted containing material later published as *On Liberty*" (Robson, 1968, pp.56-7).

^{xvii} In this section of the *Political Economy*, Mill's determination to secure "some space in human existence [...] sacred from authoritative intrusion" (1871, V.xi.2) reappeared without alteration in *On Liberty*.

^{xviii} On the Continent, the marginal revolution was simultaneously carried forward by Menger and Walras. Their strategy was exactly the same as Jevons -- reject Mill's economic theory and embrace the formal model of utilitarianism.