Economic planning envisages a particular mode and pattern of economic development - development which is initiated and guided by the state. The guiding role of the state may itself assume varied forms - it may vary from the most rigid type of direction from the top to some loose form of state inducement which may leave ample scope for the functioning of private initiative and enterprise. However that may be, the important thing to note, from the point of view of economic theory, is that the classical economists' case for development under private initiative and enterprise had its own historic justification, and a proper understanding of the same is an indispensable preliminary to an appraisal and evaluation of the modern theory of state-planned and state-guided (or state-directed) development.

The early classical thinkers visualized economic development against the background of a society which was still either predominantly rural or which was in the initial phase of large-scale industrialism. New vistas of development were opening up which were essentially due
to inventions and pioneering efforts of individuals. Full exploitation of the economic possibilities that seemed to lie ahead could only be possible under the leadership of individuals who were equipped with an adequate amount of capital. The main thing was capital, and capital was a product of saving which was an individual act. There was no conception of communal saving or collective ownership of capital. The State or government was but a body of routine-ridden officials, political theory also did not yet furnish a clear-cut theory of a beneficent or welfare state acting in terms of the collective interests of the community as a whole. Hence, the insistence on laissez faire and the guarantee of a maximum scope for the untramelled operation of private enterprise. The classical economists, therefore, presented a well-laid-out pattern of development under the guidance and leadership of individual capitalists (who might of course pool these resources through corporate enterprise in the shape of the joint-stock company).

If we trace our analysis of classical thinking to its original sources we have to refer first of all
to the Physiocrats - the earliest founders of the classical tradition. In the writings of Physiocrats we get a clear picture of the economic role of the state, but no distinct theory of development. Physiocracy was cast in a static mould. It made much of the "natural order" and it visualized the entire economy as an agricultural one, relegating manufacturing industries to the background. Indeed, the manufacturers were dubbed 'sterile'.

The physiocrats believed in what is known as the natural order of society. What the natural order exactly meant was not made clear by the physiocrats. It was a kind of God-ordained order which was meant for the happiness of mankind. Man's duty was to understand it and to bring his life into conformity with it. How could a knowledge of the order be acquired by men? The physiocrats replied that the distinctive mark of this order was its obviousness. At the same time they insisted that the self-evident must in some way be apprehended. It was not however made clear by what organ this order was...
to be sensed and appreciated. It was however, believed not to be the product of observation of external facts but the revelation of a principle within. And this is one reason why the physiocrats showed such respect for property and authority. It seemed to them that this formed the very basis of the natural order.

It is the practical conclusion that follows from this conception of natural order that is of very great significance from the point of view of the analysis of the economic role of the State. It was of the very essence of the natural order as visualized by the physiocrats that the particular interest of the individual could never be isolated from the common interest of all, but the identity of the two is best assured under a free system. The basic idea was that the movements of society being spontaneous and not artificial there was no need for State action. This was laissez-faire pure and simple.

1. History of Economic Doctrine by Gide & Rist. p.9
2. Ibid, p.11.
In the light of the later developments of economic theory it is easy to ridicule the physiocratic ideas, and to demonstrate that the supposed identity of private interest and public interest simply does not exist. But the point of view of the physiocrats has to be viewed in relation to the time, place and circumstances in which it flourished. Moreover, as distinguished commentators have pointed out, the physiocratic maxim doctrine of natural order was not a doctrine of passivity of fatalism as it is liable to be interpreted or misinterpreted. "There will be ample scope for individual effort, for it simply means leaving an open field and securing fair play for every one, free from all fear lest his interests should injure other peoples' or in any way prejudice those of the state. It is true that there will not be much work for the Government, but the task of that body will by no means be a light one, especially if it intends carrying out
the Physiocratic programme. This included upholding the rights of private property and individual liberty by removing all artificial barriers, and punishing all those who threatened the existence of any of these rights; while, most important of all, there was the duty of giving instruction in the laws of the natural order. 3 This is undoubtedly the best possible interpretation of the laissez faire policy advocated by physiocrats.

So far as, however, developmental theory and a theory of positive state policy are concerned, not much inspiration can be derived from the ideas of physiocrats. The physiocratic notion of a 'Natural order', which carried the hint that the ideal state of things was an immanent reality, not something to be achieved by struggle and effort, was utterly inconsistent with any conception of deliberate planning and state regulation. The harmony that was inherent in the natural order could not possibly fit

3. Ibid, pp. 11-12.
in with any kind of state interference directed towards improvement and development. Moreover, the physiocratic emphasis on the overwhelming importance of agriculture goes against the fundamental theory of development which insists on thorough-going industrialization.

**ADAM SMITH**

When we turn to Adam Smith's theory we find that the negative role of the State is insisted upon with considerable vigour and force in the light of an elaborate doctrine of natural harmony. Adam Smith started from the fundamental proposition that man "is led by an invisible hand to promote an end which was no part of his intention". Smith believed in the spontaneous origin of economic institutions and in their beneficent character. The economic world as we know it is not the result of a plan issuing complete from the brain of an organiser; it is the result of instinctive and spontaneous acts of millions of individuals each
pursuing his interest. The most important economic institution such as division of labour, monetary system, the market mechanism of demand and supply were not the creations of the community's reflective judgment but simply the outcome of the operation of the collective instinct.

It is however doubtful if Smith completely believed in laissez faire capitalism. A distinguished critic has observed: "He (Adam Smith) did not believe that self-interest necessarily coincides with the common good. He was bitter and violent in denouncing the self-interest of merchants and manufacturers, although he was more lenient with farmers and workers. 'Profit hunger', he said, 'conflicts with public interests' in that it always aims at monopoly. The latter he defined as 'infamous covetousness which does not shrink from terrorism and crime'. 'People of the same trade seldom convene without their entertainment ending in a conspiracy against the public or a scheme for an increase of price'. There are
Commenting upon this line of analysis as found in Adam Smith's book the same writer observes: "The contradiction between this view and the programme of laissez faire was resolved by the strongest emphasis on competition as opposed to monopoly. If self-interest, left uncontrolled, asserts itself in monopoly, it has to be controlled by competition and directed into channels that serve the public interest. Monopoly raises price and to this end cuts output; competition lowers price and increases output. Smith's entire book is a plea for the enforcement of competition as the providential, or in his sense 'natural', institution for the reconciliation of private and public interest."  

It is clear that Adam Smith was not unaware of the plagued spots of capitalism. His diatribes

5. Ibid,
against monopoly-capitalism might have conceivably led to the enunciation of a policy of state interference in economic matters, but this was not to be. To-day the realisation of the dangers of monopoly-capitalism has prepared the ground for the advocacy of a policy of active state interference and even for economic planning under the auspices of the state. The idea of State control and regulation was not unknown in the days of Adam Smith, having regard to the predominant sway that this idea exercised in the mercantilist period. But Adam Smith was so full of righteous indignation against what he considered to be mercantilist perversities and he was so much under the influence of some of the leading ideas of physiocrats, particularly in regard to the notion of the beneficent and benevolent role of nature in society, that he could not entertain the philosophy of state interference. Such state interference appeared to him to be something extremely artificial just as monopoly capitalism itself was artificial, and the remedy lay in relying upon the healing process of
While at this distance of time (more than two hundred and seventy years have passed since Adam Smith wrote) we may be amused by this naivete of faith in the virtues of competition, in the days of Smith competition was as yet an untried economic panacea which was, not unnaturally, supposed to be fraught with enormous possibilities of good. It had all the attractions of the magic formula which could work the miracle. After all, State interference and State control had been given a long trial over a period of two centuries and the results were not so remarkable. Europe, and in particular the United Kingdom, stood now at the threshold of an era of industrial expansion and unexampled economic prosperity and in this new age a new approach to the basic economic problem was called for. Adam Smith (and also the Physiocrats) showed the way, and the trail that he blazed forth was followed by successive generations of economists for well over hundred and fifty years.
It is of special importance, however, to note in this connection Adam Smith's theory of economic development. Smith's opposition to state-interference largely sprang from his deep-seated faith in the spontaneity of economic progress in a regime of free enterprise and competition. He referred to what he called "the natural progress of opulence." According to this natural course of things the greater part of the capital of every growing society is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce. Capital is thus the motive power behind economic development. How is this capital obtained? It is the outcome of individual acts of saving. We get a brief outline of Adam Smith's whole theory of development in the following observations:

"Capitals are increased by parsimony, and diminished by prodigality and misconduct. Whatever

a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest, that is for a share of the profits. As the capital of an individual can be increased only by what he saves from his annual revenue or his annual gains, so in the capital of a society, which is the same with that of all the individuals who compose it, can be increased only in the same manner.

Parsimony, and not industry, is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates. But whatever industry might acquire, if parsimony did not save and store up, the capital would never be the greater.

Parsimony, by increasing the fund which is destined for the maintenance of productive hands tends to increase the number of these hands whose labour adds to the value of the subject upon which it is bestowed. It tends, therefore, to increase the exchangeable value of the annual produce of the land and labour of the country. It puts into motion an
additional quantity of industry, which gives an additional value to the annual produce.

"What is annually saved is regularly consumed as what is annually spent, and nearly in the same time too; but it is consumed by a different set of people. That portion of his revenue which a rich man annually spends is in most cases consumed by idle guests and menial servants, who leave nothing behind them in return for their consumption. That portion which he annually saves, as for the sake of the profit it is immediately employed as a capital, is consumed in the same manner, and nearly in the same time too; but by a different set of people, by labourers, manufacturers and artificers, who reproduce with a profit the value of their annual consumption.

"By what a frugal man annually saves, he not only affords maintenance to an additional number of productive hands, for that or ensuing year, but, like the founder of a public workhouse, he establishes as it were a perpetual fund for the maintenance of an equal number in all times to come."
The above statement gives an excellent exposition of the classical theory of economic development. Development is the outcome of saving which is an individual act. From the point of view of society as a whole, capital-formation is the resultant of saving by many individuals. There must be a prior act of saving in order to make capital formation possible. The Keynesian idea that investment may automatically evoke the necessary measure of saving is specifically negatived by the remark that "parsimony, and not industry is the immediate cause of the increase of capital". The well-known classical idea (which Keynes took great pains to refute more than one hundred and fifty years later) that any act of saving necessarily and immediately results in increased investment has also been clearly stated by Smith - "What is annually saved is as regularly consumed as what is annually spent"; it is consumed in the process of manufacture of goods. The idea that saving may take the form of hoarding or accumulation of idle balance is altogether foreign to Smith's analysis.
Smith however was well aware of the distinction that we make now-a-days between the widening and deepening of capital. He wrote:

"The annual produce of the land and labour of any nation can be increased in its value by no other means but by increasing either the number of its productive labourers, or the productive powers of those labourers who had before been employed. The number of its productive labourers, it is evident, can never be increased, but in consequence of an increase of capital, or of the funds destined for maintaining them. The productive power of the same number of labourers cannot be increased but in consequence either of some addition and improvement to those machines and instruments which facilitate and abridge labour, or of a more proper division and distribution of employment."

Adam Smith's theory of development was marked by robust optimism. He visualized a continuous

process of development and there is no hint of a set-back to progress in his writings. When the industrial and commercial possibilities within the country have been fully exploited by the increased supply of capital, then any surplus capital that may be still available would be devoted to what he called the carrying trade. "The carrying trade is employed in transacting the commerce of foreign countries, or in carrying the surplus produce of one to another." If there is superfluity of capital within the country it will be absorbed in carrying trade. Says Smith: "When the capital stock of any country is increased to such a degree that it cannot be all employed in supplying the consumption and supporting the labour of that particular country, the surplus part of it naturally disgorges itself into the carrying trade, and is employed in performing the same offices to other countries." What is more important to note is that Smith considered the possibilities of carrying trade to be almost

infinite. He wrote: "The extent of the home trade and of the capital which can be employed in it, is necessarily limited by the value of the surplus produce of all those distant places within the country which have occasion to exchange their respective productions with one another; that of the foreign trade of consumption, by the value of the surplus produce of the whole country and of what can be purchased with it; that of the carrying trade by the value of the surplus produce of all the different countries in the world. Its possible extent, therefore, is in a manner infinite in comparison with that of the other two, and is capable of absorbing the greatest capitals." The stagnant or stagnation thesis which figured so prominently in the writings of later classicists did not form a part of Smith's analysis.

RICARDO

After Smith, Ricardo gave a new turn to the discussion of the role of capital in the economic development of a country. In one sense, he was even

more optimistic than Smith in evaluating the bright possibilities of ever-increasing development resulting from more and more accumulation of capital. Ricardo referred to Smith's apprehension of a fall of profits consequent on increasing competition among capitalists, and said that this apprehension was really groundless. He quoted the following remarks of Adam Smith:—"When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit; and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in all."

Criticising Adam Smith's view, Ricardo observed:—"... he does not appear to see that at the same time that capital is increased, the work to be effected by capital is increased in the same proportion. Mr. Say has, however, most satisfactorily shown that there is no amount of capital which may not be employed in a country,
because demand is only limited by production. " 12

Ricardo proceeds to elaborate the thesis of J.B. Say
as follows: "No man produces, but with a view
to consume or sell and he never sells, but with
an intention to purchase some other commodity, which
may be immediately useful to him, or which may
contribute to further production. By producing,
then, he necessarily becomes either the consumer of
his own goods, or the purchaser and consumer of the
goods of some other person."

Again, he adds: "Productions are always
bought by productions, or by services; money
is only the medium by which the exchange is effected.
Too much of a particular commodity may be produced,
of which there may be such a glut in the market, as
not to repay the capital expended on it; but this
cannot be the case with respect to all commodities;

12. Principles of Political Economy and Taxation by
David Ricardo (1932) - Edited by Sir E.C.K. Gonner,
p. 273.

13. Ibid,
the demand for corn is limited by the mouths which are to eat it, for shoes and coats by the persons who are to wear them; but though a community or a part of a community, may have as much corn, and as many hats and shoes, as it is able or may wish to consume, the same cannot be said of every commodity produced by nature or by art. Some would consume more wine, if they had ability to procure it. Others having enough of wine, would wish to increase the quantity or improve the quality of their furniture. Others might wish to ornament their grounds, or to enlarge their houses. The wish to do all or some of these is implanted in every man's breast; nothing is required but the means, and nothing can afford the means, but an increase of production. If I had food and necessaries at my disposal, I should not be long in want of workmen who would put me in possession of some of the objects - most useful or most desirable to me. " 14 Even J.B. Say could not have given a better interpretation of his thesis.

In spite of his energetic espousal of the optimistic viewpoint of Say, Ricardo actually introduced a marked tone of pessimism into his appraisal of the consequences of capital accumulation. To understand this we have only to remind ourselves of the profound revolution in outlook that was brought about by Malthus who as an economist has been ranked lower than Ricardo (most unfortunately, and unjustifiably, as Keynes has shown, from the point of view of development of economic science), but whose basic ideas of rapid population growth and lagging food production dominated the thoughts of economists for decades and even generations. The Malthusian bogey of population increase, unaccompanied by anything like a proportionate increase in food supply, crept into, and overshadowed, Ricardo’s theory of capital accumulation via his own theory of rent. The Ricardian rent-theory is nothing but a more refined version of the core of the Malthusian argument, and its inescapable logical implication is that the

15. Keynes’ Article on Malthus’ in “Essays in Biography”
ultimate prospects of capital accumulation are anything but rosy. As capital accumulation will increase, employment will be offered to more and more labourers whose increasing demand for food will bring under cultivation worse and worse grades of land; costs of production will rise and prices of food will also rise and to support the growing number of employees the capitalist will have to spend more and more; the money wages would thus shoot up so high and profits would be progressively deflated until they disappear altogether in the state of stagnation. Ricardo's approach is best illustrated in some of his own statements, viz.,: "From the account which has been given of the profits of stock, it will appear, that no accumulation of capital will permanently lower profits, unless there be some permanent cause for the rise of wages. If the funds for the maintenance of labour were doubled, trebled or quadrupled, there would not long be any difficulty in procuring the requisite number of hands, to be employed by those funds, but owing to the increasing difficulty of making constant additions to the food of the country, funds of the same value would
probably not maintain the same quantity of labour. If the necessaries of the workman could be constantly increased with the same facility, there could be no permanent alteration in the rate of profit or wages, to whatever amount capital might be accumulated. 16

Actually, however, he insists repeatedly that food supply can not be increased except at increasing cost. The Malthusian theory of population growth and food supply had taken a firm root in his mind. He said: "No point is better established than that the supply of labours will always ultimately be in proportion to the means of supporting them." 17

The gloomy prospects of profit-motivated capitalism are clearly indicated in the following statement: "There cannot, then, be accumulated in a country any amount of capital which cannot be employed productively, until wages rise so high in consequence of the rise of necessaries and so

little consequently remains for the profits of stock, that the motive for accumulation ceases. " 18.

As Schumpeter has shown, the classical economists like Malthus, Ricardo and Mill presented a specific type of "vision of the economic future of humanity. " This vision was characterised by extreme pessimism. " Its well known features were pressure of population, present already but still more expected; natures' decreasing response to human effort to increase the supply of food; hence failing net return to industry, more or less constant real wages, and ever increasing rents of land." 19 Commenting upon this version of the future trend of economic development Schumpeter observes : " The most important thing to observe is the complete lack of imagination which that vision reveals. These writers lived at the threshold of the most spectacular economic developments ever witnessed.

18. Ibid, p. 274
Vast possibilities matured into realities under their very eyes. Nevertheless, they saw nothing but cramped economies struggling with ever decreasing success for their daily bread. " 20

Another vision of this classical theory was presented in the writings of the American economists Carey and French economist Bastiat. This vision was highly optimistic, but the economists who cherished this vision had a much lower stature and standing and their ideas did not carry the same weight as those of the stalwarts like Ricardo, Malthus and Mill.

An important point to note is that neither in the pessimistic nor in the optimistic version was any positive role assigned to the state. In the pessimistic version in particular as presented by Ricardo there was some scope for state policy as a means of ameliorating or at least arresting the deteriorating economic conditions which ultimately resulted in the stationary state,

but Ricardo's imagination fell far short of any
grandiose conception of the regulative role of
state in economic life. In fact, the whole idea was
too foreign to his analytic scheme.

Ricardo's opposition to the protection
given to agriculture and his advocacy of free
trade afford a striking illustration of his attitude
toward State interference. Ricardo favoured free
trade in corn even if such freedom meant considerable
dependence on the part of England on foreign
sources of supply of corn. He stated his conclusion
on the subject as follows: "It will be proper to notice
an objection which is frequently made against freedom
of trade in corn, viz., the dependence on which it
would place us for an essential article of subsistence
on foreign countries. This objection is founded on
the supposition that we should be importers of a
considerable portion of the quantity which we annually
consume. In the first place, I differ with those who think
that the quantity which we should import would be
immense; and, in the second, if it were as large as
the objection requires, I can see no danger as likely to arise from it." 21 In fact, as is well known, Ricardo saw in freedom of international trade the prospect of some sort of solution of the problem of rising rent. This signifies that in the only important field in which state interference was actually in existence in the first half of the nineteenth century it was looked upon with disfavour by Ricardo and in fact he strongly opposed this interference.

Only at one place there is a hint of state interference in the form of imposition of taxation on the rent of land, but he failed to work out the logical implications of the idea. It was left to John Stuart Mill to develop this analysis in a fruitful manner. Ricardo remained completely wedded to the laissez tradition.

**J.S. Mill.**

The next landmark in the classical

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development of thought is John Stuart Mill's economic theory as expounded in his "Principle of Economics". The classical economic theory reached in a sense the culmination and completed development in the writings of John Stuart Mill. At the same time it can be claimed that it was in Mill's exposition that the weak points of the theory were indicated and an opening was created for the inflow of certain extraneous ideas which tended to remould in some measure the structure of the classical theory. He challenged the classical school's belief in the universality and permanence of natural laws. Of course, he never took up the extreme position of the Marxian and historical schools, which maintained that the so-called natural laws were merely attempts at describing the social relations which may exist at certain periods in economic history, but which change their character as time goes on. He made a distinction between the laws which obtained in the field of production and those that regulate distribution. Only in the one case can we speak of natural laws; in the other they are artificial - created by man - and capable of being
changed, should men desire it. Contrary to the opinion of the classical school, he tries to show that wages, profit, and rent are not determined by immutable laws against which the will of man can never prevail. "The door was thus open for social reform which was no small triumph." In fact Mill's real contribution to the theory of economic policy was his thesis that "the laws of production partake of the nature of physical truths . . . . . . . . . . . . . . . it is not so with the distribution of wealth. That is a matter of human institution solely." 23

It is thus clear that John Stuart Mill gave a new orientation to the classical economic theory in such manner as to justify state interference in certain economic matters of vital significance.

We may consider some of the ideas of Mill in detail. Mill's growth theory, particularly with reference to the role of capital in development

hardly contains any new ideas; but it has nevertheless a special interest of its own because we find in it a full and mature, and a fairly elaborate, expression of the classical theory. We shall take up this point at a later stage.

Although Mill has often been characterized as a transitional thinker who came under the influence of socialistic ideas, he was on the whole a staunch supporter of the capitalist system of free enterprise. This becomes evident from his discussion of the economic role of the State, and of the comparison that he made between communism and capitalism. To consider the second point first, we find, to begin with, a high appreciation of communism in the following remarks of Mill:—"Mankind are capable of a far greater amount of public spirit than the present age is accustomed to suppose possible. History bears witness to the success with which large bodies of human beings may be trained to feel the public interest their own. And no soil
could be more favourable to the growth of such a feeling, than a communist association, since all the ambition, and the bodily and mental activity, which are now exerted in the pursuit of separate and self-regarding interests, would require another sphere of employment, and would naturally find it in the pursuit of the general benefit of the community. " 24

Mill's admiration for the communist ideal is also eloquently expressed in the following observations: "If therefore the choice were to be made between communism with all its chances, and the present state of society with all its sufferings and injustices; if the institution of private property necessarily carried with it as a consequence, that the produce of labour should be apportioned as now see it, almost in an inverse ratio to the labour - the largest portions to those who have

never worked at all, the next largest to those whose work is almost nominal, so in a descending scale, the remuneration dwindling as the work grows harder and more disagreeable, until the most fatiguing and exhausting bodily labour cannot count with certainty on being able to earn even the necessaries of life; if this, or communism, were the alternative, all the difficulties, great or small, of communism would be but as dust in the balance. " 25

This high praise for communism is, however, qualified by "ifs" and "buts" which are more significant than they appear to be at first sight. The qualifying clauses are introduced by Mill in course of a brief comparison between capitalism and socialism as follows: "But to make the comparison applicable, we must compare communism at its best, with the regime of individual, property, not as it is, but as it might be made. The principle of private property has never yet had a fair trial in any country, and less so, perhaps, in this

25. Ibid, p. 128
Mill's ultimate judgement in favour of private enterprise system is also indicated in the following remark: "If a conjecture may be hazarded, the decision will probably depend mainly on one condition, viz., which of the two systems is consistent with the greatest amount of human liberty and spontaneity." 27 Needless to add, he considered such "liberty" and "spontaneity" to be the peculiar characteristics of capitalism.

In his discussion of the economic role of the state, Mill, first of all, puts forward a strong plea for the provision of a distinct area of freedom for the individual on which the state must not under any circumstances encroach. He observes: "Whatever theory we adopt respecting the foundation of the social union, and under whatever political institutions we live, there is a circle around every individual being, which no government, be it that

26. Ibid,
27. Ibid, p. 129.
of one of a few or of the many, ought to be permitted, to overstep. "Evidently, Mill has in view the sphere of "self-regarding actions" which he sharply distinguished from the sphere of "other-regarding actions". The latter might constitute a suitable object of state interference. But even in regard to such actions he sounded a note of warning. He said: "Even in those portions of conduct which do affect the interest of others the onus of making out a case lies on the defenders of legal prohibitions." Mill gave some positive hints of a general character regarding state action as follows: "When a government provides means for fulfilling a certain end, leaving individuals free to avail themselves of different means if in their opinion preferable, there is no infringement of liberty, no irksome or degrading restraint. One of the principal objections to government interference is then absent. "

29. Ibid,
30. Ibid, p.69.
The following statement is also interesting in this connection. "It is therefore of supreme importance that all classes of the community down to the lowest should have much to do for themselves; that as great a demand should be made upon their intelligence and virtue as it is in any respect equal to; that the government should not only leave as far as possible to their own faculties the conduct of whatever concerns themselves alone, but should suffer them, or rather encourage them, to manage as many as possible for their joint concerns by voluntary co-operation; since this discussion and management of collective interests is the great school of that public spirit, and the great source of that intelligence of public affairs, which are always regarded as the distinctive character of the public of few countries." 31

We may also consider his views on the role of capital in economic development. He begins by emphasizing the supreme importance of capital in

the field of production. The Ricardian emphasis on land as the chief limiting factor to expansion of production seems at first to be lacking in Mill's discussion, but it crops up as the discussion proceeds and gradually becomes the dominant note. Mill commences his discussion with the following remarks, "There will be no greater number of productive labourers in any country, or in the world, than can be supported from that portion of the produce of past labour, which is spared from the enjoyments of its possessor for purposes of reproduction and is termed capital. " On what does the supply of capital depend? Mill mentions two factors - the production of a surplus and the disposition to save - as being principally responsible for the growth of capital. Mill expresses himself on this issue as follows: - "Since all capital is the product of saving, that is, of abstinence from present consumption for the sake of a future good, the increase of capital must depend upon two things - the amount of fund from which saving can be made, and the strength of the dispositions which prompt it."
"The fund from which saving can be made is the surplus of the produce of labour, after supplying the necessaries of life to all concerned in the production (including those employed in replacing the materials and keeping the fixed capital in repair). More than this surplus cannot be saved under any circumstances. As much as this, though it never is saved, always might be. This surplus is the fund from which the enjoyments as distinguished from the necessaries of the producers are provided; it is the fund from which all are subsisted, who are not themselves, engaged in production; and from which all additions are made to capital."

What is the main operative force behind the disposition to save? (The 'propensity to save' is Keynes' terminology). The operative force is the profit prospect (the marginal efficiency of capital as Keynes would call it). As Mill puts it:

"The greater the profit that can be made from capital, the stronger is the motive to its accumulation."

Mill seems to have been well aware of the subjective and objective conditions of saving. In this respect also he may be said to have anticipated Keynes' analysis. Mill says: "But the disposition to save does not wholly depend on the external inducement to it; on the amount of profit to be made from savings. With the same pecuniary inducement, the inclination is very different, in different persons, and in different communities. The effective desire of accumulation is of unequal strength, not only according to the varieties of individual character, but to the general state of society and civilization. Like all other moral attributes, it is one in which the human race exhibits differences conformably to the diversity of its circumstances and the stage of its progress." 33

In course of Mill's discussion, however, it becomes clear that he does not consider shortage of capital to be the sole limiting factor, but attaches almost equal importance to the factor 'land'. He says: "Production comes to a pause,

33. Ibid, p. 102.
either because the effective desire of accumulation is not sufficient to give rise to any further increase of capital, or because, however disposed the possessors of surplus income may be to save a portion of it, the limited land at the disposal of the community does not permit additional capital to be employed with such a return, as would be an equivalent to them for their abstinence. "34 The Malthusian or the Ricardian apprehensions of excessive increase of population also find a sharp expression in Mill's analysis. Although Mill pleaded for a more equitable distribution of wealth which, be maintained, could be brought about by human agency (the laws of distribution, unlike the laws of production, being amenable to human control), he energetically emphasized that a mere improvement of the system of distribution could not ameliorate the conditions of the people unless the growth of numbers was checked. He said: "...... the necessity of restraining population is not, as many persons believe, peculiar to a condition of great inequality of property. A great number of people

34. Ibid, p. 117
cannot, in any given state of civilization, be collectively so well provided for as a smaller. The niggardliness of nature, not the injustice of society, is the cause of the penalty attached to over-population. "He was of course thinking in terms of the law of diminishing returns which set a rigid limit to the increase of food supply. He pointed out that it was no solace to think that the new mouths which increased population called into existence also brought with them new hands. "The new mouths require as much food as the old ones and the hands do not produce as much."

Mill took into full account the fact that the operation of the law of diminishing returns might be suspended by technological improvements. He said: "Unless the arts of production were in the same time improved in an almost unexampled degree, the inferior soils which must be resorted to and the more labourers and scantily remunerative cultivation which must be employed on the superior soils, to procure food for so much larger a population, would, by an insuperable necessity, render any individual
in the community poorer than before. 35 He clearly visualizes the problem of development as consisting in a race between population and improvement. He says that the main question is "whether population is advancing faster than improvement, or improvement than population." 36 He energetically emphasizes that "the progress of improvement has a counteracting operation, and allows of increased numbers without deterioration, and even consistently with a higher average of comfort." What is more important, he interprets improvement in a very broad sense. He says: "Improvement must here be understood in a wide sense, including not only new industrial inventions, or an extended use of those already known, but improvements in institutions, education, opinions and human affairs generally, provided they tend, as almost all improvements do, to give new motives or new facilities to production." 37

35. Ibid, p. 118.
36. Ibid.
37. Ibid.
Mill, however, following the lead given by Smith and Ricardo refers to the inevitable tendency of profit to decline further and further. Since profit is the motive power behind increased production, the urge for production gradually diminishes until it disappears altogether in the "stationary state". Mill, however, developed his thesis of the stationary state in his own way. He did not contemplate stationary state with much fear and pessimism; indeed, he boldly emphasized its brighter aspects.

First of all, however, it is necessary to understand what is meant by the 'stationary state.' He said: "When a country has long possessed a large production, and a large net income to make savings from, and when, therefore, the means have long existed of making a great annual addition to capital, (the country not having, like America, a large reserve of fertile land still unused) it is one of the characteristics of such a country, that the rate of profit is habitually within, as it were, a hand's breadth of the minimum, and the country,
therefore, on the very verge of the stationary state. By this, I do not mean that this state is likely in any of the great countries of Europe, to be soon actually reached, or that capital does not still yield a profit considerably greater than what is barely sufficient to induce the people of those countries to save and accumulate. My meaning is that it would require but a short time to reduce profit to the minimum, if capital continued to increase at its present rate, and no circumstances having a tendency to raise the rate of profit occurred in the meantime. " 38

In other words, Mill clearly realized that there were certain counteracting circumstances which prevented the fall of profit. The counteracting circumstances contemplated by him was chiefly the improvement of industrial arts which increased the efficiency of labour. He said: "An augmentation of capital, much more rapid than that of population

38. Ibid, p. 443.
must soon reach its extreme limit, unless accompanied by increased efficiency of labour (through inventions and discoveries or improved mental and physical education) or unless some of the idle people or of the unproductive labourers, became productive. " 39

Contemplating the possibility of population increase along with the increase of capital he said: "If population did increase with the increase of capital, and in proportion to it, the fall of profits would still be inevitable. Increased population implies increased demand for agricultural produce. In the absence of industrial improvements, this demand can only be supplied at an increased cost of production, either by cultivation of worse land, or by a more elaborate and costly cultivation of the land already under tillage," 40 Another qualifying condition that he attached to the hypothesis of the

39. Ibid, p. 444
40. Ibid.
stationary state is as follows: "To fulfil the conditions of the hypothesis, we must suppose an entire cessation of the exportation of capital for foreign investment." In other words, he assumed, like Keynes, a closed economy.

Mill, however, refused to "regard the stationary state of capital and wealth with the unaffected aversion so generally manifested towards it by political economists of the old school." He elaborated his thesis in this regard as follows:

"It is scarcely necessary to remark that a stationary condition of capital and population implies no stationary state of human improvement. There would be as much scope as ever for all kinds of mental culture and moral and social progress; as much room for improving the Art of Living, and much more likelihood of its being improved, when minds ceased to be engrossed by the art of getting on. "41 It is evident however, that Mill considered the economic loss of set-back resulting from stagnation to be compensated

41. Ibid, p. 454.
by ethical or spiritual gains. This brings in extra-economic considerations with which the economist as economist is hardly concerned.

Nevertheless it is evident that in his analysis the first breaches were made in the classical theory to let in state policy as the regulator and controller of certain sectors of the free-enterprise economy. His programme of social policy was a powerful challenge to the classical mode of approach to economic problems. In his programme he advocated abolition of the wage system and the introduction of a cooperative association of producers, socialisation of rent by a tax on land and reduction of inequalities of wealth by restriction on the rights of inheritance. Judged by ideological standards of the classical economists of the first half of nineteenth century, this programme might well appear to be revolutionary. But as we go through post-Mill developments in classical economic theory we find that the fruitful possibilities indicated in Mills's approach were ignored by later thinkers. No doubt economic theory as such was further refined and developed elaborately
by subsequent writers such as Jevons and Marshall but this particular aspect of economic thinking, i.e., the theory of state policy in the economic sphere was sadly neglected.

Marshall

We may pass on to the next significant landmark, namely Marshall's Principles of Economics published in 1890. The most striking feature of Marshall's approach to economic problems is his humanitarian outlook. In this connection it is interesting to recall the following story of his early life which is mentioned by Keynes. The story was told by Marshall himself and its gist is as follows:

"About the time that I first resolved to make as thorough a study as I could of Political Economy (the word economics was not invented) I saw in a shop window a small oil painting of a man's face with a strikingly gaunt and wistful expression, as of one 'down and out' and bought it for a few shillings. I set it above the chimney-piece in my room in college and thenceforward called it my patron saint, and devoted
myself to trying how to fit men like that for heaven. Meanwhile I got a good deal interested in the semi-mathematical side of pure economics, and was afraid of becoming a mere thinker. But a glance at my patron saint seemed to call me back to the right path. "42 These words of Marshall bear witness to his humanistic approach to economics. In his book - Principles of Economics - also we come across many observations which vividly reflect broad human sympathies and which show unmistakably that Marshall regarded economics as a science whose essential importance and indeed sole justification lies in the effective contribution it makes towards the advancement of human welfare.

The greater part of Marshall's theoretical discussions is devoted to an elaboration of the equilibrium analysis. Nevertheless, we get occasional

references in his writings to long-term growth problems. He devoted a separate chapter - the 'Growth of Wealth' - to the discussion of this matter. 

Of course, all the considerations bearing on long-term development have not been brought under review. Like the classical economists, he has given much attention to the question of capital accumulation, though, of course, his treatment of the subject has some distinctive features of its own. He has also made significant observations on the population problem and the question of the stationary state which indicate a new and a more realistic approach to these issues.

To consider the latter points first, we find that the Malthusian law of population which constituted one of the major assumptions of the economic analysis of Ricardo and Mill was seriously questioned by Marshall. Malthus, Ricardo and Mill emphasized untiringly that population has an inherent tendency to

grow uninterruptedly until it presses upon the bare subsistence level. Below that level the rate of increase of the population must necessarily shrink, because people would die of sheer starvation. Marshall commented: "But in fact the check to the rapid growth of population would probably come earlier, because the population at large would not be likely to limit its consumption to bare necessaries; some part of the family income would almost certainly be spent on gratifications which contributed but little to the maintenance of life and efficiency. That is to say, the maintenance of standard of comfort, raised more or less above that which was necessary for life and efficiency, would necessarily involve a check to the growth of population at a rather earlier stage than would have been reached if family expenditure had been directed on the same principles as is the expenditure on the nurture and training of horses or slaves." 44 Thus Marshall introduced in an unambiguous manner the new line of reasoning which interpret

44. Ibid, p. 691.
population growth in optimistic terms. The essence of this new argument is that a rise of the standard of living does not stimulate population growth, but operates as a check upon the growth of population. Later on, Pigou elaborated the implications of this line of reasoning in his book 'Economics of Welfare'. We shall consider his views at a later stage.

Marshall's comments on the much-dreaded stationary state are highly significant: "There seems to be no good reason for believing that we are anywhere near a stationary state in which there will be no new important wants to be satisfied; in which there will be no more room for profitably investing present effort in providing for the future, and in which the accumulation of wealth will cease to have any reward. The whole history of man shows that his wants expand with the growth of his wealth and knowledge." 45 Thus we find that the concept of the stationary state and the apprehension of the fall of profit to the zero level which

45. Ibid, p. 223.
dominated the minds of economists from Adam Smith to John Stuart Mill are discounted by Marshall in no uncertain terms. In so far as, therefore, Marshall dealt with long-term development prospects, he presented, on the whole, an optimistic theory which was in striking contrast to the pessimistic theory of the classical school.

This optimistic outlook of Marshall pervades all through his treatment of capital accumulation and the factors that govern it. The note of optimism still more clearly manifests itself in the following statement: "As civilization has progressed, man has always been developing new wants, and new and more expensive ways of gratifying them. The rate of progress has sometimes been slow, and occasionally there has been a great retrograde movement; but now we are moving on at a rapid pace that grows quicker every year; and we can not guess where it will stop. On every side further openings are sure to offer themselves, all of which will tend to change the character of our social and industrial
life, and enable us to turn to account vast stores
of capital in providing new gratifications and new
ways of economizing effort by expanding it, in
anticipation of distinct wants. " 46 The 'vision' of
economic development that is reflected in Marshall's
writings is indeed a bright and glowing one-
it is entirely different from the pessimistic 'visions' of
the classical economists.

Like his predecessor, John Stuart Mill,
(and his successor J.M. Keynes), Marshall has
considered at some length the conditions of saving
which leads to capital-formation. He refers to
certain psychological factors like family affection,
ambition - "the hope of rising in life", and "prospec-
tiveness", "the faculty of realizing the future".

Among the objective factors, he attached chief
importance to the existence of a surplus income. He
said: "The power to save depends on an excess of
income over expenditure; and this is greatest among
wealthy." 47 The concluding part of the observation

46. Ibid,
47. Ibid, p. 229.
might lead one to think that Marshall considered inequalities of wealth and income to be highly favorable to saving and capital formation. This would, however, be a hasty inference in view of certain clear-cut observations made by Marshall. In reality he tried to combat the view of "the older economists" that savings are made almost exclusively from the profits of capital. His own appraisal of the whole matter was as follows:

"But even in modern England rent and earnings of professional men and hired workers are an important source of accumulation; and they have been the chief source of it in all the earlier stages of civilization. Moreover, the middle and especially the professional classes have always denied themselves much in order to invest capital in the education of their children; while a great part of the wages of working classes is invested in the physical health and strength of their children. The older economists took too little account of the fact that human faculties are as important a me
of production as any other kind of capital; and we may conclude, in opposition to them, that any change in the distribution of wealth which gives more to the wage receivers and less to the capitalists is likely, other things being equal, to hasten increase of material production; and that it will not perceptibly retard the storing up of material wealth."

In regard to the question of State interference Marshall assumed a most cautious and critical attitude. He was so much enamoured of freedom of competition that he could not brook the idea of state interference in economic matters. In fact, on one occasion he expressed the following view: "Government intrusion into business which require ceaseless invention and fertility of resource is a danger to social progress, the more to be feared because it is insidious . . . . . . . . . . . . Government creates scarcely anything . If Government control be supplanted that of private enterprise a hundred years ago, there is good reason to suppose that our methods
of manufacture now would be about as effective as they were fifty years ago, instead of being perhaps four or even six times as efficient as they were then . . . . . . " 48

In Marshall's whole theory of economics as presented in his main book - Principles of Economics - we come across some views in one place which indicate that Marshall was not altogether satisfied with the beneficial results of free competition. This is in connection with his observations on the doctrine of maximum satisfaction. We quote his views at some length :- " There is indeed one interpretation of the doctrine (i.e. the doctrine of maximum satisfaction) according to which every position of equilibrium of demand and supply may fairly be regarded as a position of maximum satisfaction. For it is true that so long as the demand price is in excess of the supply price, exchange can be effected at prices which give a surplus of

satisfaction to buyer or seller or to both. The marginal utility of what he receives is greater than that of what he gives up, to at least one of the two parties; while the other, if he does not gain by the exchange, yet does not lose by it. So far then every step in the exchange increases the aggregate satisfaction of the two parties. But when equilibrium has been reached, demand price is now equal to supply price, there is no room for any such surplus; the marginal utility of what each receives no longer exceeds that of what he gives up in exchange; and when the production increases beyond the equilibrium amount, the demand price being now less than the supply price, no terms can be arranged which will be acceptable to the buyer, and will not involve a loss to the seller.

"It is true that a position of equilibrium of demand and supply is a position of maximum satisfaction in this limited sense, that the aggregate satisfaction of the two parties concerned increases until that position is reached, and that any production beyond the equilibrium amount could not be permanent.
maintained so long as buyers and sellers acted freely as individuals, each in his own interest.

"But occasionally it is stated, and very often it is implied, that a position of equilibrium demand and supply is one of maximum aggregate satisfaction in the full sense of the term . . . . . . . The doctrine so interpreted is not universally true.

"In the first place it assumes that all differences in wealth between the different parties concerned may be neglected, and that the satisfaction which is rated at a shilling by any of them, may be taken as equal to one that is rated at a shilling by any other. Now it is obvious that, if the producers were as a class very much poorer than the consumers, the aggregate satisfaction, might be increased by a stinting of supply when it would cause a great rise in demand price (i.e. when the demand is inelastic); and that if the consumers were as a class much poorer than the producers, the aggregate satisfaction might be increased by extending the pr
duction beyond the equilibrium amount and selling the commodity at a loss. " 49

The hint given in the concluding part of the above paragraph is a clear pointer to the desirability of state interference in certain circumstances, but Marshall refrains from drawing any positive conclusions. He finally observes:

"These conclusions, it would be observed, do not by themselves afford a valid ground for Government interference. But they show that much remains to be done by a careful collection of statistics of demand and supply, and a scientific interpretation of their results, in order to discover what are the limits of the work that society can with advantage do towards turning the economic actions of the individuals into those channels in which they will add the most to the sum total of happiness. " 50

Keynes has pointed out that here we have " Marshall;
proof that laissez faire breaks down in certain conditions theoretically, . . . . . . 51 But Ma did not carry this particular argument very far, the further exploration of that field was left to Marshall's favourite pupil and successor, Prof. A. Pigou

Pigou's economic theory has certain developmental implications, although in other respect it has been cast into a static mould. In his magnópus, The Economics of Welfare, his main preoccupation is with the maximisation of welfare through the increase of the size of national dividend as well as through the betterment of the distribution of same. The developmental objective is brought into prominence by the insistence on the increase in the quantum of the national dividend. He has observed "The economic welfare of the country is intimately associated with the size of the national dividend.

changes in economic welfare with changes in the size of the dividend. " 52 He further states: " It is evident that, provided the dividend accruing to the poor is not diminished, increase in the size of the aggregate national dividend, if they occur in isolation without anything else whatever happening, must involve increases in economic welfare. " 53

It is important to note in this context that Pigou took considerable pains to repudiate the classical view that population growth constituted the most serious menace to development prospects. In the Malthusian analysis all development would be but a mirage in view of the persistent tendency of population to outrun the increase of food supply. In Ricardo's study the growth of population ultimately led to the emergence of the stationary state. John Stuart Mill was no less pessimistic in this regard, though in his view the dark clouds

53. Ibid, p. 82.
of the stationary state bad a silver lining. Pigou squarely faces the whole issue, and lays bare its inner implications. His analysis is clear-cut and logical. He begins by admitting that the initial effect of the increase of national dividend is to cause some increase of population. He says: "It is true, no doubt, that the direct and immediate result of an increase in the dividend accruing to any group is likely to be some increase of population." 54 He adds, however: "But it is contrary to experience to assert that increased income stimulates population to so large an extent that the individual earnings of work people are brought down again to the level they occupied before the improvement." 55 He points out there are two uses for increased resources - population-use and standard-of comfort use, and says: "It is not possible to prophesy a priori the proportion in which increased resources will be devoted to these two uses. The proportion

54. Ibid., p. 99
55. Ibid., p. 100
will vary at different times and in different places . . . . . . . But - and this is the point - it is practically certain that the population use will not be allowed to absorb the whole fruits of increased command over nature. " 56

This is not, however, the whole of the matter. There are certain deeper - seated reactions to be taken into account. In this connection Pigou refers to the far-reaching implications Brentano's analysis. He says: "An important school of writers, headed by Professor Brentano, admits that the direct and immediate effect of enhanced material prosperity in any class will, in general, be to increase the marriage and, therewith, the birth rate. They maintain, however, that the enhanced prosperity will, in the long run, bring about the development of a higher spiritual and cultural level in which more forethought is exercised about children and more satisfactions rival to that of having children come to the front. Hence, they urge, in the

56. Ibid.
long run an increase in the income of any class is likely to lead to no increase at all, but actually to a decrease, in their birth-rate. . . . . . . "57

Like the classical economists Pigou emphasizes the important role of capital in production. He is, however, more concerned with maintaining capital intact than with the augmentation of the quantity of capital. The relation, however, that he establishes between capital and the national dividend clearly indicates the nature of the role of capital in development. He describes capital as follows: "However we define it, it may be likened to a lake into which a great variety of things, which are the fruit of savings, are continually being projected. These things, having once entered the lake survive there for various periods, according to their several natures and the fortunes that befall them. Among them are things of long life, like elaborately built factories, things of moderate life,

57. Ibid, p. 103.
like machinery, and things of very short life, like material designed to be worked up into finished goods for consumption or coal destined to be burned.

All things that enter the lake eventually pass out of it, again. The is then of necessity always a stream following out of the lake so long as it has any contents at all and in practice there is also always a stream flowing into it. The output of the lake thus depends on the input. What will be the effect of "failure to provide sufficient replacement to maintain capital intact?" The answer is that "as a result of the decline in the inflow, the outflow also must diminish, since the progressive fall in the stock of capital involves at the same time a progressive fall in the daily wastage." If the failure to provide replacement is carried to the point that henceforward none whatever, are forthcoming, the stock of capital must, of course, eventually disappear altogether. The demise of the item of capital will certainly have been preceded by

58. Ibid pp. 43-44.
that of the last man. " 59 The input -output relationship is thus clearly brought out. It follows logically that if the input of the lake is increased - that is capital supply is increased - the output will also increase. Increased capital supply will thus lead to the augmentation of the national dividend.

The principle of state action was set forth by Pigou in a clear and unambiguous manner. The broad framework of private -enterprise economy was to be maintained intact, but the need for state action in certain fields of economic activity in certain specified circumstances was clearly indicated by Pigou. In 'Economics of Welfare' Pigou's analysis centered round the concept of national dividend which he treated as the objective counterpart of economic welfare. The two basic issues were the production of the national dividend and the distribution of the national dividend. In both these fields the state, in the view of Pigou, might be

59. Ibid pp. 48-49.
required to play a positive role in specified circumstances. As regards the production of the national dividend, Pigou broadly laid down a criterion by which the justifiability or otherwise of state action could be judged. The criterion was the coincidence or divergence of the marginal social net product and the marginal private net product - the two most useful tools of economic analysis introduced by Pigou into economic theory. When investment in any industrial field yielded greater marginal private net product, it was a clear indication of excessive private gain being made at the expense of society. In such a case Pigou could not think of prohibiting the private industrial activity altogether but would advise the imposition of a check upon it by taxation. On the other hand, certain types of investment were calculated to yield greater marginal social net product than marginal private net product. In such circumstances the society was a net gainer as a result of the industrial activities of some entrepreneurs. From the social point of view enterpriser of this sort were most welcome and
there was a clear case for a positive policy of state encouragement of such enterprises. Pigou urged that Government could offer bounties to entrepreneur who were engaged in socially beneficial activities. From the point of view of our analysis the main point to note is that an economist who still adhered to the basic classical standpoint was nevertheless prepared to advocate a definite policy of state interference in economic matters.

The extent to which Pigou was prepared to go in the matter of advocacy of state interference is even more clearly indicated in his treatment of the problem of the distribution of the national dividend. A basic postulate of the analysis made by him is that more equitable and fair distribution of the national dividend is highly desirable from the standpoint of economic welfare. But the important point is that he urged that the state should play an active role in bringing about a better distribution of the national dividend. Pigou made the analysis in considerable detail, clearly indicat
the circumstances in which the transference of resources from the relatively rich to the relatively poor could be made. His fundamental stand was that the transference was to be made without the risk of discouragement to the savers and enterprisers and of deterioration in the standard of efficiency of workers. In other words, tax measures which were to be imposed should not bear too heavily upon the former class of people. Secondly, no transfer of resources to the poorer sections of the community was to be made which might in any way encourage idleness.

The elaborate analysis made by Pigou in respect of the role to be played by the state in economic life marked a significant departure from the classical tradition. Of course, even before Pigou, John Stuart Mill had underlined the need for state action but his programme of social betterment was not supported by a sound theoretical analysis. In Pigou's discussion we get a striking demonstration of the specific need for state action in appropriate fields in the light of admirable theoretical reason and analysis.
It was a notable performance which impressed one all the more when one compares it with the hasty approach made by his master Marshall to the vital question of the economic role of the state. It is true that Marshall threw out some hints of the possibility of breakdown of laissez faire in course of his discussion of the principle of maximum social advantage, but he did not carry his arguments to their logical conclusions. In this connection Keynes's appraisal of Pigou's position vis-a-vis that of Marshall is illuminating. Keynes wrote: "Marshall's proof that laissez faire breaks down in certain conditions theoretically and not merely practically, regarded as a principle of maximum social advantage, was of great philosophical importance. But Marshall does not carry this argument very far, and the further exploration of that field has been left to Marshall's favourite pupil and successor, Professor Pigou, ...........................................

From this point of view Pigou's analysis may well be considered a distinct landmark in the evolution of the economic role of the state.