

THE POLITICAL ECONOMY OF WILLIAM GRAHAM SUMNER:  
A STUDY IN THE HISTORY OF FREE-ENTERPRISE IDEAS

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## CHAPTER ONE

### INTRODUCTION

#### Purpose of Study

The following is a study in the history of free-enterprise ideas. Specifically it presents the political economy of William Graham Sumner, highlighting the ideas and analysis that mark his contribution to economic thought, and make him an interesting figure in this field. In the study, we will concentrate on his early writings, notably the short papers, speeches and pamphlets which he wrote between 1873 and 1895, and not on the famous Science of Society which is a jointly authored work that cannot, unfortunately, be identified solely as Sumner's. A. G. Keller has admitted as much:

I cannot go into detail concerning the shares of the two authors in the actual text further than to say that there are comparatively few passages of any length or consecutiveness which stand exactly as Professor Sumner left them, and no whole chapters, except that Chapter LVIII remains almost as he left it. . .<sup>1</sup>

Much of the confusion about Sumner's political economy is derived from the fact that most critics and scholars have

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<sup>1</sup>William Graham Sumner, Albert Galloway Keller, The Science of Society (New Haven: Yale University Press, 1927), p. xxv.

chosen to look to the Science of Society (and Folkways, which is fundamentally a sociological treatise) to derive information regarding Sumner's economic ideas. Here, however, we depend almost exclusively on his earlier articles, written when economics and political economy were his chief intellectual and academic interests.

There is a dearth of knowledge and understanding regarding William Graham Sumner's political economy and, specifically, the reasoning he used in support of his policy positions. Most of the intellectual investigations have been sociological in nature, and most of the authors have been -- appropriately -- sociologists. Few trained economists have touched the man or his ideas in any great detail, and scarcely any mention is made of Sumner in most survey books on economic thought.<sup>2</sup> He has been left to the historians and sociologists, and the interpretations of his political economy which reach the public and academic eye are mainly born of these sources.

This development is unfortunate for both Sumner and the interested public. Without a detailed review of his economic system and a clear understanding of his economic principles, it is quite impossible to understand the rationale of his defense of laissez-faire capitalism, or any

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<sup>2</sup>Erich Roll, A History of Economic Thought (London: Faber and Faber Ltd., 1944) can be used as an example. Although Roll has a chapter on "The American Contribution" (Ch. 9), Sumner is not mentioned.

specific policy statement that he may have made. Without an integration of specific economic principles with definitive concepts of government, it is quite impossible to make any real sense out of his announced political economy. Without this information, all reference to his support of laissez-faire is misleading. It is misleading because it does not give the intellectual reader the facts he needs to decide whether or not Sumner's support of laissez-faire is rational, given his assumptions. It is the purpose of this study to provide such information.

Before we analyze the political economy of William Graham Sumner, two aspects of the background of his thought will be treated: the state of free-enterprise thought<sup>3</sup> prior to Sumner's exposition; the intellectual climate within which Sumner lived, taught and wrote. The former is necessary to make explicit the nature of the ideas commonly referred to as "economic liberalism". Only by attempting this will we be able to see the uniqueness of Sumner's defense of laissez-faire capitalism. The latter requirement is necessary to demonstrate possible influences on Sumner's writing, and the contemporary

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<sup>3</sup>The term "free-enterprise" shall be used interchangeably with the term "economic liberalism". Both shall refer to an economy in which decisions as to prices, wages, product, methods of production, etc...., are determined by the voluntary wills and interactions of private individuals. See William D. Grampp, Economic Liberalism, Volume I (New York: Random House, 1965), p. viii.

status of the philosophical debate concerning capitalism.

### Brief History of Free-enterprise Thought

The history of economic thought contains at least two distinct interpretations of economic liberalism. A few free-enterprisers were extreme laissez-faire proponents, and held the view that the government should pursue the role of impartial umpire in economic affairs, and legitimate coercive custodian in civil affairs. Their reasons for this ideological position ranged from what they observed to be the inability of government to make economic rules and programs work efficiently, to the "supernatural sanction" which some benevolent deity had bestowed on the unhampered market system. Other free-enterprisers, far less extreme, supported a competitive system where the market would make most economic decisions, but where the government could intervene to further utilitarian objectives in the public interest. For instance, most of the classical economists believed that although the economy should be market oriented, the government might still "do whatever the people want it to do and it is able to do."<sup>4</sup> Thus, as will be shown in more detail below, although free-enterprisers believed in the freedom of enter-

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<sup>4</sup>William D. Grampp, Economic Liberalism, Volume II (New York: Random House, 1965), p. 139.

prise, the degrees, applications, and rationalizations of this freedom ranged through the intellectual spectrum.

The idea of an economic system operating without significant governmental guidance or restraint stretches far back into economic history; traces of economic liberalism can be found in the writings of the Stoics, especially Cicero, and even in some Mercantilistic thought.<sup>5</sup> However, the first sustained intellectual effort on behalf of a free market system probably originates with that unique group of French economists, the Physiocrats.<sup>6</sup> Led by the physician Quesnay, the Physiocrats believed that there existed a natural order in the universe and a harmony of interests among men, and that the promotion of the general economic good was best achieved when individuals were left free to adopt economic measures consistent with natural laws. They had personally witnessed the economic effects of state interference -- especially the effect of taxation on the small landowner -- and were unconvinced that governmental economic intervention could ever, in any important way, secure increases in the general economic welfare. The Physiocrats believed that intervention interfered with the workings of natural laws

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<sup>5</sup> Grampp, Economic Liberalism, Volume I, pp. 42-43 and Chapter 2.

<sup>6</sup> Charles Gide and Charles Rist, A History of Economic Doctrines (London: D. C. Heath and Company, no date given), pp. 5-12.

which -- if left unhindered -- automatically provided the maximum production of social product. The most progressive social proposal was therefore to suggest the withdrawal of government from economic affairs; an ushering out of government would automatically usher in the natural order. Thus the Physiocrats, despite their strange theoretical notions about trade and agriculture, were the first organized intellectual spokesmen for economic freedom.

Adam Smith's Wealth of Nations (1776) provided economic justification for the intellectual system suggested by the Physiocrats. In the Wealth of Nations, Smith indicted all the old regulatory systems, especially Mercantilism, for their economic inefficiency; rules and regulations on production and trade -- either foreign or domestic -- simply held down the accumulation of capital, and thus the creation of social wealth. Smith felt that most economic activities were best accomplished through the actions of private individuals pursuing their own version of their own self-interest. Removal of the restrictions and provisions for a proper institutional framework would permit the "system of natural liberty," regulated by economic competition, to produce the maximum of social wealth.<sup>7</sup>

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<sup>7</sup>Roll, A History of . . ., pp. 146-149.

Smith's support of free enterprise was not solely economic. He was a liberal in the classical political sense; the libertarian views of T. W. Hutchison and David Hume became essentially his own. For Smith, as for most eighteenth century liberals, free-enterprise was simply the logical extension in the economic arena of the political doctrine of the free man; if man required political freedom to choose his representatives, he required, analogously, economic freedom to choose his products. Thus, much of Smith's support for an economic system of natural liberty was derived from his disposition towards political liberty.

It is not to be assumed, however, that Adam Smith was an extreme laissez-faire proponent, or that he was consistent in extending his system of natural liberty to all economic areas. The Wealth of Nations contains numerous examples demonstrating that Smith did not believe private wills or interests would synthesize into the general good. National defense was an obvious example (he favored the retention of the Navigation Acts), but exceptions to the general rule of non-interference in the areas of schools, bridges, canals and roads were even more revealing.<sup>8</sup> Smith, it seemed, qualified his general rule of non-inter-

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<sup>8</sup>M. Blaug, Economic Theory in Retrospect (Homewood, Illinois: Richard D. Irwin, Inc., 1962), p. 56. Or see Adam Smith, Wealth of Nations (New York: Modern Library, 1937), pp. 682-690 and 737.



ference whenever he felt that private pecuniary interests could not or would not operate in the public interest as he conceived it.

Bentham and the Philosophic Radicals made the semi-utilitarian economic philosophy of Adam Smith more explicit. Bentham believed that the interests reflected in the private, selfish economic activities of individuals were identical and created a stable system; that is, "that universal order was at once surely and instinctively established by the spontaneous division of tasks and by the automatic mechanism of exchanges."<sup>9</sup> The Philosophic Radicals supported laissez-faire because that view of political economy extended the "greatest good to the greatest number." Governmental intervention -- not condemned a priori -- was rejected for the most part simply because the hedonistic calculus and experience had shown that its benefits did not usually exceed its costs. Thus, as with Adam Smith, the Radicals made the question of laissez-faire essentially a pragmatic issue: they supported the economic system which promised to function best in the public interest.

In fact, this seems to have been the main ideological position of most of the classical economists. Neither

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<sup>9</sup>Elie Halevy, The Growth of Philosophic Radicalism (Boston: The Beacon Press, 1955), p. 488.

Smith, nor Ricardo, Bentham, McCulloch, Senior or Sidgwick ever admitted to a belief in undiluted laissez-faire, nor did they imply it in a clear and consistent theory of public policy.<sup>10</sup> For the most part, it seems that their only guide to the important question of legitimate governmental functions was utilitarian: though non-intervention was to be the general rule, the government could interfere whenever its duly elected, well-intentioned representatives thought the action to be in the public interest and capable of realization. Few classical economists it seems were dogmatic or extreme with respect to the principle of non-interference.

Now, to be sure, there were notable exceptions at both extremes. Malthus, though in the classical tradition, was far from being unqualified in his support of capitalism. He was confident that he had discovered an internal flaw in the system which prevented it from attaining the "nirvana" promised by the classical optimists. The Marxists, of course, would neither accept the premises nor the conclusions of the free-market philosophy. At the other extreme, Say and Bastiat professed an almost unqualified belief in the advantages of a completely unhampered market, as did Herbert Spencer, whose particular ideas will be expanded below. Yet, generally, most of the class-

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<sup>10</sup>Grampp, Economic Liberalism, Volume II, p. 74. Or see Edmund Whittaker, Schools and Streams of Economic Thought (Chicago: Rand McNally Co., 1960), pp. 168-169 and 174-175.

ical economists steered clear of the dogmatic extremes; most favored capitalism and responsible government intervention in the public (usually consumer) interest.

John Stuart Mill, for example, was a classical economist who adhered to the general rule of non-interference ("Laissez-faire in short, should be the general practice; every departure from it unless required by some great good, is a certain evil")<sup>11</sup> yet suggested such important exceptions as to make the general rule almost completely useless as a policy tool. Using the philosophical principle of utilitarianism as a justification for state interference, Mill sanctioned public education, child labor laws and factory legislation, the fixing of monopoly prices and the confiscation of monopoly profits, along with a host of other "exceptions". In fact, Mill concluded his famous Principles of Political Economy with the following sentence:

In the particular circumstances of a given age or nation, there is scarcely anything really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself, not because private individuals cannot effectually perform it, but because they will not.<sup>12</sup>

The position expressed above was probably a fairer representation of what most classical economists believed than

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<sup>11</sup>Grampp, Economic Liberalism, Volume II, p. 121.

<sup>12</sup>Ibid., p. 135.

the general notion that they adhered to strict laissez-faire.

An interesting exception in the classical tradition was Herbert Spencer, who expounded a pure, unqualified laissez-faire system of enterprise. Spencer, more a philosopher than an economist, was for freedom above all other possible goals; he believed that freedom provided the chances for complete individual development and growth. Anything which limited the freedom of the individual -- specifically governmental rules and regulations on trade and commerce -- should be abolished. His list of reforms ranged from abolishing factory legislation and the public ownership of utilities, to eliminating all regulations on the sale of beer in Ireland and the setting of cab fares in London.<sup>13</sup> Herbert Spencer was thorough, consistent and complete; he would abolish all state intervention in the economic system, no matter how insignificant this interference might seem.

Spencer's disposition toward liberty and freedom was not his sole justification for a political economy of laissez-faire. He also maintained that governmental measures frequently produced -- in actual fact -- consequences opposite to those intended by the legislation.<sup>14</sup> For in-

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<sup>13</sup>Ibid., p. 117.

<sup>14</sup>Herbert Spencer, Social Statics together with The Man Versus the State (New York: D. Appleton & Co., 1896), pp. 339-347.

stance, he maintained that building codes and regulations passed with the intention of improving low-income housing had actually contributed to the dearth of that particular item, since the codes forced builders into expensive home building where a reasonable profit was possible. In a fitting climax to this kind of economic liberalism, Spencer said, in a tone of genuine frustration:

See then what legislation has done. By ill-imposed taxes, raising the prices of bricks and timber, it added to the costs of houses; and prompted, for economy's sake, the use of bad materials in scanty quantities. To check the consequent production of wretched dwellings, it established regulations which, in mediaeval fashion, dictated the quality of the commodity produced; there being no perception that by insisting on a higher quality and therefore higher price, it would limit the demand and eventually diminish the supply. By additional local burdens, legislation has of late still further hindered the building of small houses. Finally, having, by successive measures, produced first bad houses, and then a deficiency of better ones, it has at length provided for the artificially increased overflow of poor people by diminishing the house capacity which already could not contain them!

Where then lies the blame for the miseries of the East end? Against whom should be raised "the bitter cry of outcast London?"<sup>15</sup>

It is clear that Spencer's attitude towards economic affairs was quite different from that of his fellow free-enterprisers. While co-existing with the likes of Senior and John Stuart Mill, the nature of his argument and the extremeness of his philosophical position are peculiarly his own, and define the outer limits of free-enterprise

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<sup>15</sup>Ibid., pp. 346-347.

thought.

The preceding survey has been a brief ideological sketch of some of the important men and ideas that make up the intellectual past of free-enterprise thought prior to William Graham Sumner. It has shown that most of the classical economists were utilitarian or pragmatic in their support of economic liberalism, and that to support economic liberalism was not necessarily to support laissez-faire.

#### The Contemporary Setting of Sumner's Writing

The period in which Sumner wrote (1865-1909) was one of the most exciting in all political economy. It was the age of post-Civil War industrialization and all the dramatic changes wrought by that phenomenon, including the general development of the corporation as the dominant industrial business organization. It was an age of endless currency debates, first "greenbacks", then "bi-metallism", and finally "free silver"; of significant and often violent labor union activity, including the formation of the A. F. of L.; of tariff proposals, and of the Sherman Anti-Trust Act of 1890. It was also the great era of political-economic ferment and dissent, of disbelief and disillusionment, as typified by the almost fanatical Populist and Granger movements, and the popular success of Edward Bellamy's searing indictment of industrial

capitalism, Looking Backward. It was an age of attack on orthodoxy (probably ignited by Darwin's evolutionary thesis, and sustained by the Marxian movement), and one alive with reform, change and controversy.

Essentially, the controversy turned on "the right and capacity of government to regulate business enterprise in the general interest of the community and in the specific interest of its less fortunate members."<sup>16</sup> The defenders of orthodoxy held that the government had neither the right nor the capacity to meddle with existing industrial capitalism. The foundation of their position was a belief in an "established order" that was not to be tampered with by man. God, in his infinite wisdom, had created the laws of nature and economics. Men who sought to change the institutions of capitalism were "idiots for challenging eternal verities."<sup>17</sup>

In addition, the supporters of capitalism maintained that it cultivated the virtues of liberty, independence, hard-work and self-reliance. Any step in the direction of social welfare legislation, or significant governmental intervention in the economy, would discourage the development of timeless values, and lead the country to eventual but certain moral decay. Thus, capitalism was required to

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<sup>16</sup> Clinton Rossiter, Conservatism in America (New York: Alfred A. Knopf, 1955), p. 132.

<sup>17</sup> Ibid., p. 150.

preserve the moral fabric of a culture.<sup>18</sup>

The controversy concerning government interference was most apparent in economics where the accelerating dominance of large scale enterprise was creating significant divergence between classical theory and industrial fact. At the time Sumner was writing, a trend -- led by the economists who helped to form the American Economic Association -- had already begun toward some form of public control or regulation of "Big Business", especially of natural monopolies. Most of these men were firmly convinced that the government could and should involve itself in economic affairs, in an effort to guide the economy in the public interest.<sup>19</sup> Sumner was not so convinced. The reasons why he was not so convinced are the subject matter of the present study.

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<sup>18</sup> Ibid., pp. 136-141 and 157.

<sup>19</sup> Joseph Dorfman, The Economic Mind in American Civilization, Volume III, 1865-1918 (New York: The Viking Press, 1949), pp. 206-208.



## CHAPTER TWO

### SUMNER: METAPHYSICS, EPISTEMOLOGY AND ECONOMIC LAWS

William James once declared that philosophy dealt "with the principles of explanation that underlie all things without exception, the elements common to gods and men and animals and stones, the first whence and the last whither of the whole cosmic procession, the conditions of all knowing, and the most general rules of human conduct."<sup>1</sup> If this can be accepted as a fair definition of the content and scope of philosophy, then William Graham Sumner, throughout his entire intellectual and professional life, was a philosopher, who sought "the principles of explanation that underlie all things. . . and the most general rules of human conduct." And yet the idea that anyone should consider him a philosopher would undoubtedly have been personally revolting to the man himself, since he belittled the value of philosophy as a useful discipline, and particularly would have nothing to do with that divi-

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<sup>1</sup>William James, Some Problems of Philosophy (London: Longmans and Green, 1911), p. 5.

sion of philosophy known as "metaphysics".<sup>2</sup> At a faculty meeting called to approve the appointment of a philosophy teacher, Sumner is reported to have said: "Philosophy is in every way as bad as astrology. It is a complete fake, an anachronism. We might just as well have professors of alchemy or fortunetelling or palmistry."<sup>3</sup> At another time he compared metaphysics to sparrow holes or bird nests found in clay cliffs along the Mississippi: "...Take away the cliffs and leave the holes, and you have metaphysics."<sup>4</sup> Sumner was a reluctant philosopher at best.

Yet despite all his denunciations of the worth of philosophical concepts, his own ideas are heavily rooted in a clear and precise metaphysical superstructure which ought to be examined at the very beginning of any serious account of his political economy. This is necessary for the simple reason that Sumner's epistemological tools and metaphysical framework strongly shape his ideas on the content and usefulness of political economy, and provide, in most cases, the initial validity (for him) of the policy principles he later develops. In other words, before Sumner's economic system can be detailed, the metaphysical

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<sup>2</sup>Harris E. Starr, William Graham Sumner (New York: Henry Holt and Company, 1925), p. 395.

<sup>3</sup>Mortimer Smith, "William Graham Sumner: The Forgotten Man," American Mercury, LXXXI (1950), pp. 358-359.

<sup>4</sup>Starr, William Graham Sumner, p. 525.

nature of his economic data and economic laws must be explained, along with the epistemological techniques used by him to derive knowledge from reality. Once Sumner's conception of reality and the legitimate means of deriving "truth" from reality are presented, we can proceed to detail his economic system.

### Metaphysics

Metaphysically, Sumner should probably be classified as a materialist or realist. This is perhaps most clearly shown in the following quotation:

Motives and purposes are in the brain and heart of man. Consequences are in the world of fact. The former are infected by human ignorance, folly, self-deception, and passion; the latter are sequences of cause and effect dependent upon the nature of the forces at work. When, therefore, a man acts, he sets forces in motion, and the consequences are such as those forces produce under the conditions existing. They are entirely independent of any notion, will, wish, or intention in the mind of any man or men.<sup>5</sup> Consequences are facts in the world of experience.

For Sumner, a consequence in the real world is the direct or indirect result of some antecedent material cause, and the relationship between cause and effect is a definite, objective one, depending upon the specific nature of the particular forces involved; both the consequence itself and the relationship between consequence and cause are

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<sup>5</sup>William Graham Sumner, "Purposes and Consequences," Earth-Hunger and Other Essays, ed. Albert Galloway Keller (New Haven: Yale University Press, 1913), p. 67.

unaffected by hopes, wishes or dreams. Thus, as Sumner has said:

If one man discharges a gun at another and kills him, he may say afterwards that he "did not know that it was loaded." He did not mean to kill. The consequences remain; they are such as follow from the structure of a gun, the nature of explosives, and the relative adjustment of the men and the things. . . . Why is there any such thing as wisdom, unless there is a distinction between a correct and an incorrect apprehension of existing conditions and of the effects which certain forces will produce? How could anybody ever make a "mistake" if his purposes would determine the consequences of his acts? Why should we try to get experience of life and to know how to act under given circumstances, unless it is because the causes and effects will follow their own sequences and we, instead of controlling them by our mental operations, are sure to be affected by them in our interests and welfare?<sup>6</sup>

Being essentially a materialist, Sumner opposes all theories of reality such as "Teleology" or "Idealism" which suppose that reality is ordered by goals, ends and purposes, or that the "stuff" of the universe is mind and not matter.<sup>7</sup> He regards such theories as "speculative" and unscientific, and unsuited to an understanding of political economy -- or anything else. Thus he rejects socialism, for instance -- especially Utopian Socialism -- on the purely metaphysical ground that it deals only with "motives, purposes, hopes, intentions, and ideals" and has

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<sup>6</sup>Ibid., pp. 67-68.

<sup>7</sup>Melvin Rader, The Enduring Questions (New York: Henry Holt and Company, 1956), pp. 179-180.

nothing to do with "realities, forces, laws, consequences, facts, conditions, relations."

This is why it is true, although socialists are annoyed by the assertion, that socialism is not a subject for discussion by serious students of the science of society. An economist or sociologist who discusses socialism is like a physicist who discusses Jules Verne's novels. He does not prove his own breadth of mind; he proves that he does not understand the domain of his own vocation.<sup>8</sup>

### Epistemology

Given the existence of reality, how does one obtain true knowledge about it? Sumner feels that the best way to obtain true information concerning reality is through induction, or what he sometimes refers to as the scientific method.

. . .the inductive method, though slower and more commonplace, is far more sure and convincing . . .I have no confidence in any results which are not won by scientific method and I leave aside all traditional and dogmatic systems as scarcely worth noticing. I insist upon strictness of definition, correctness in comparison, correctness of inference, and exhaustiveness in generalization. These are what constitute the scientific method as applied to diverse subjects.<sup>9</sup>

. . .we ought to test all notions; we ought to pursue all propositions until we find out their connection with reality. That is the fashion of

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<sup>8</sup>Sumner, "Purposes and Consequences," Earth-Hunger..., p. 71.

<sup>9</sup>William Graham Sumner, "Introductory Lecture to Courses in Political and Social Science," The Challenge of Facts, ed. Albert Galloway Keller (New Haven: Yale University Press, 1914), pp. 400-401.

thinking which we call scientific in the deepest and broadest sense of the word. It is, of course, applicable over the whole field of human interests, and the habit of mind which insists on finding realities is the best product of an education which may be properly called scientific.<sup>10</sup>

The scientific method and the inductive approach are the appropriate epistemological tools of analysis one needs to discover reality. Although the "a priori" or "speculative" method is perfectly legitimate and the "prerogative of genius," Sumner places little faith in it, for it has been constantly misused and carelessly applied throughout its history; he notes that almost all religious, economic and political dogmatism stems from an unscientific, sentimental approach in the quest for truth.<sup>11</sup> Sumner feels that the great hope of the social sciences lies in the successful adoption and refinement of the methodological tools used so brilliantly in the physical and biological sciences.

#### Economic Laws

But how can the social sciences use scientific methods? Aren't the nature and realities of the disciplines essentially different? In other words, isn't the metaphysical nature of economics and its laws fundamentally diff-

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<sup>10</sup>Sumner, "The Scientific Attitude of Mind," Earth-Hunger, . . . , p. 24.

<sup>11</sup>Ibid., pp. 17-28.

erent from the nature of physical facts and any physical law? Sumner answers quite bluntly that there is no metaphysical difference between the nature of the data in the physical and in the social sciences, and here begins the unique epistemological-metaphysical synthesis which becomes the first important feature in the structure of his political economy. Sumner has stated exactly what he means:

I regard economic forces as simply parallel to physical forces, arising just as spontaneously and naturally, following a sequence of cause and effect just as inevitably as physical forces -- neither more nor less. The perturbations and complications which present themselves in social phenomena are strictly analogous to those which appear in physical phenomena. . . Of course we have peculiar difficulties to contend with, inasmuch as we cannot constitute experiments, and it is necessary to rely largely upon historical cases which present now one and now another force or set of forces in peculiar prominence. The facts which show the difficulty of the task, however, have nothing to do with its nature.<sup>12</sup>

The more we come to understand economic science the more clear it is that we are dealing with only another presentation of matter and force, that is to say, with quantity and law, so that we have mathematical relations, and have every encouragement to severity and exactitude in our methods. . . What is the force of legislation? Let us study it just as we would go on to study friction in mechanics.<sup>13</sup>

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<sup>12</sup>William Graham Sumner, "A Concurrent Circulation of Gold and Silver," The Forgotten Man and Other Essays, ed. Albert Galloway Keller (New Haven: Yale University Press, 1919), p. 187.

<sup>13</sup>Ibid., p. 188.

Thus "economic forces" or natural forces arise, carry through, and conclude in a manner completely analogous to physical phenomena; once initiated, the results depend on antecedent causes and the nature of the forces involved, not on motives or intentions. The consequences of the action are also completely predictable if one knows and understands the laws associated with the force. The laws themselves are "natural, not arbitrary, artificial or conventional" and society cannot change the laws or escape their ultimate effects; the laws are metaphysically a part of reality itself and, therefore, unalterable.<sup>14</sup> As Sumner puts it:

We can direct the forces from one course to another; we can change their form; we can make them expand themselves upon one person or interest instead of upon another. We do this all the time, by bad legislation, by prejudice, habit, fashion, erroneous notions of equity, happiness, the highest good, and so on; but we never destroy an economic force any more than we can destroy a physical force.<sup>15</sup>

This principle, so analogous to the "conservation of energy" in physics, is applied directly by Sumner to economic phenomena. For example, as we shall see in Chapter Six, he uses exactly this phrase in describing the inability of the tariff system ever to achieve its intended

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<sup>14</sup>Sumner, "The Influence of Commercial Crises on Opinions About Economic Doctrines," The Forgotten Man, . . ., p. 215.

<sup>15</sup>Ibid.



objectives.<sup>16</sup>

Economic laws such as the laws of population, rent, diminishing returns, Gresham's Law and, in general, all varieties of the general law of supply and demand, are changeless principles which have always and will always exist; they exist in the nature of things or, metaphysically, they are part of reality.<sup>17</sup> Thus the law of supply and demand as applied to the determination of prices on products exists, whether or not people choose to recognize the fact or whether or not they understand it. The existence of these laws or forces necessarily generates prices which -- in a free market -- clear markets. The forces of supply and demand can change over time and determine new prices, but the principle that demand and supply determine prices which clear markets at any given moment remains as an unalterable fact of economic life.

Although these laws or principles are metaphysically permanent, Sumner never implies that the economic variables inside the laws are unchangeable; on the contrary, these variables are constantly varying in economic magnitude. As an example, the laws of population had been in effect for nineteenth century America as surely as they had been in effect for any other country, crowded or un-

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<sup>16</sup>Sumner, "Protectionism, The -Ism Which Teaches That Waste Makes Wealth," The Forgotten Man, . . ., p. 23.

<sup>17</sup>Sumner, "The Challenge of Facts," The Challenge of Facts, . . ., p. 37.

crowded; America had not escaped the laws of population.<sup>18</sup> The difference in consequences in this instance resulted from the fact that the economic values inserted into the population formulae of nineteenth century America did not produce the frightening effects of the Malthusian population doctrine. Thus, the relationship between cause and effect is fixed in an economic law, although a change in the cause will necessarily produce a change in the effect.

This very brief chapter has been presented to set the stage for the development of William Graham Sumner's economic system. The chapter can be summarized as follows: metaphysically, Sumner is essentially a materialist-realist who believes in a physical world (an objective reality) that man can know through the epistemological tools of inductive scientific method. Economics is the science of reality which investigates the operations of changeless economic principles within which economic events commence, continue, and conclude in predictable patterns according to the nature of the forces involved. Political economy is the art of applying economic principles to real world situations.

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<sup>18</sup>William Graham Sumner, What Social Classes Owe to Each Other (Caldwell, Idaho: The Caxton Printers, Ltd., pp. 134-135.

## CHAPTER THREE

### THE ECONOMIC FOUNDATIONS OF SOCIETY

#### Scarcity, Land and Population

The most important facts of reality or natural laws which the science of economics has discovered are the laws of population and land, or more exactly, the "man-land ratio," which consists of the Malthusian population principle, and the Ricardian idea of diminishing returns to land. These laws constitute "the great underlying condition of society" and are the "widest and most controlling condition of our status on earth";<sup>1</sup> they are the proper foundation of all economic theory, and the fundamental basis of any sound political theory, and the development of any useable political economy.<sup>2</sup>

The laws of population and land are important because of the very nature of the economic problem, that is, the fact of economic scarcity. The fact of economic scarcity is universal and, metaphysically, a part of reality; it

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<sup>1</sup>William Graham Sumner, "Sociology," War and Other Essays, ed. Albert Galloway Keller (New Haven: Yale University Press, 1911), pp. 175-176. See also, Sumner, "Earth Hunger," Earth-Hunger. . ., p. 32.

<sup>2</sup>Ibid., pp. 42-43.

arises directly from the knowledge that economic resources are limited in supply, while the wants, needs and desires of men are inherently unlimited.<sup>3</sup> From these inescapable "life conditions"<sup>4</sup> Sumner deduces the fact that men must struggle to exist, that is, that they must use their minds and bodies in a competitive and cooperative effort to wring out a living from a nature or reality which is "niggardly," "a hard mistress," oblivious to man's pleas or needs, and which "goes on her way without a throb of emotion or a deviation by a hair's breadth from the sequence of her processes."<sup>5</sup> Sumner maintains again and again that there is no "boon of nature" or "banquet of life" for men to feast on at their leisure;<sup>6</sup> all the goods necessary for man's survival have to be created or derived by man himself.<sup>7</sup>

Thus, the struggle for existence for Sumner revolves around three irrevocable concepts; scarcity, or the absence of a "boon of nature"; Malthusian population theory, or the fact that "the increase of population goes on ac-

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<sup>3</sup>Sumner, "Land Monopoly," Earth-Hunger, . . ., p. 239.

<sup>4</sup>William Graham Sumner, Folkways (New York: Dover Publications, Inc., 1959), p. 16.

<sup>5</sup>Sumner, "Earth Hunger," Earth-Hunger, . . ., p. 32. See also, Ibid., p. 35, and Sumner, "The Challenge of Facts," The Challenge of Facts, . . ., p. 17.

<sup>6</sup>Sumner, "The Boon of Nature," Earth-Hunger, . . ., p. 235.

<sup>7</sup>Sumner, "The Challenge of Facts," The Challenge of Facts, . . ., p. 57.

cording to biological laws which are capable of multiplying the species beyond any assignable limits";<sup>8</sup> and diminishing returns to land, or the fact that "more labor gets more from the land, but not proportionately more."<sup>9</sup> If the land-population ratio is favorable, that is, if land is relatively more abundant than labor, the "struggle for existence" is relatively less severe; by applying mind and body to abundant, cheap, and fertile land any man can make a living. In this case, wages would be high and rents relatively low or non-existent, and most farmers would be quite equal in income and status.<sup>10</sup> If the land-population ratio is unfavorable, that is, if labor or population is overabundant relative to the available land, then the struggle for existence tends to be much more difficult. Overabundant population produces diminishing returns on fixed amounts of land, resulting in a scarcity of product and generally low wages.<sup>11</sup> Thus, the ratio of land to population is a handy indicator of economic welfare.

#### Technological Change

But given these facts, are men necessarily "doomed" by economic principles over which they have no direct con-

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<sup>8</sup>Sumner, "Sociology," War. . ., pp. 174-175.

<sup>9</sup>Ibid., p. 175.

<sup>10</sup>Sumner, "Earth-Hunger," Earth Hunger. . ., p. 42-43.

<sup>11</sup>Ibid., pp. 37-38.

trol--which are in fact part of reality? Must men necessarily suffer the fortunes and consequences of arbitrary land-population ratios? In this area Sumner is careful to point out that although man must assume the responsibility for maintaining his life by earning a living, he need not necessarily be constrained or restrained in an economic sense by fixed land-population ratios. Welfare or per capita income and product can be increased by either emigration (lowering population in relations to land) or technological growth and development made actual by increases in capital (increasing the productivity of land in relation to population). Since this aspect of Sumner's economic system is so frequently forgotten or misrepresented, and since it is of crucial importance in an understanding of his political economy, we quote two passages which explicitly highlight these concepts:

If a square mile of land could support an infinite number of human beings, or if it cost only twice as much labor to get forty bushels of wheat from an acre as to get twenty, we should have no social problem. . . The fact is otherwise. So long as the population is low in proportion to the amount of land, on a given stage of the arts, life is easy and the competition of man with man is weak. When more persons are trying to live on a square mile than it can support, on the existing stage of the arts, life is hard and the competition of man with man is intense. . . The constant tendency of population to outstrip the means of subsistence is the force which has distributed population over the world, and produced all advance in civilization. To this day the two means of escape for an overpopulated country are emigration and an advance in the arts. The former wins more land for the same people; the

latter makes the same land support more persons."<sup>12</sup>

The amount of land, again, is not a simple arithmetic quantity. As we make improvements in the arts a single acre is multiplied by a new factor and is able to support more people. All the improvements in the arts, of whatever kind they are, have this effect, and it is by means that, other things remaining the same, they open wider chances for the successive generations of mankind to attain to comfort and well-being on earth. All our sciences tell on the same ratio in the same way. Their effect is that by widening our knowledge of the earth on which we live, they increase our power to interpose in the play of the forces of nature and to modify it to suit our purposes and preferences.<sup>13</sup> (Italics added)

Contrary to what some critics maintain, these passages show that Sumner is not an economic fatalist; although he accepts the validity of fixed economic principles, he never maintains that men are helpless in the face of these laws, nor must they bow to poverty, for instance, if the present man-land ratio has determined that they be poor. Sumner maintains, on the contrary, that men must learn and obey social laws so that they need not be helpless in the face of them, but be able instead to command the laws in their own interests.<sup>14</sup> Once men learn to understand the principles of economic reality, they can learn to initiate action that produces consequences in some meas-

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<sup>12</sup>Sumner, "The Challenge of Facts," The Challenge of Facts. . ., pp. 22-23.

<sup>13</sup>Sumner, "Earth Hunger," Earth-Hunger. . ., p. 32.

<sup>14</sup>Sumner, "The Influence of Commercial Crises on Opinions About Economic Doctrines," The Forgotten Man. . ., pp. 214-217.

ure coincident with their intentions. He believes--and this is not a unique belief--that men cannot change the relationship between cause and effect within an economic principle; this relationship is a metaphysical fact of life and exists as long as men with unlimited wants desire resources and products in scarce supply. What men can change over time--by emigration or technological advance--are the variables inside the principles. Thus, the unchangeable aspect of an economic law or principle is the relationship between cause and effect and not the substantive content of particular causes and effects.

#### Competition and Monopoly

Given a fixed and unfavorable land-population ratio, the competition of man versus man to acquire the limited goods and resources of nature is severe. Sumner believes that this condition is the very force or pressure which--over time--spawns the "division of labor, exchange, higher social organization, emigration, and advances in the arts."<sup>15</sup> It thus becomes the driving force for economic growth, developing to a high degree all the latent and potential powers of production. The task of this driving force is to defeat the "monopoly" that nature holds over resources:

Monopoly is in the order of nature. The relaxation of monopoly, and the introduction of the free

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<sup>15</sup>Sumner, "Sociology," War. . ., p. 174.



play of effort, that is, of liberty and competition is due to the growth of civilization. . .<sup>16</sup>

. . . what men have done, therefore, in the course of civilization is this: they have broken down natural monopolies in the interest of free competitive effort.<sup>17</sup>

Monopoly--throughout most of economic history--is "natural," that is, it exists because of the strength of nature and the weakness of man; it is competition that is so rare.<sup>18</sup> Nature holds her resources and potential goods tightly, and it is only the improved techniques of production and organization employed by an advancing industrial civilization that are capable of loosening them. (Monopoly will be discussed in much more detail in Chapter Four, Section C.)

Sumner's conception of "competition" in this context is two-fold.<sup>19</sup> In the original competition--the struggle of men against nature--men cooperate together in industrial organization; the division of labor, specialization and extensive exchange all involve patterns of implicit cooperation in the interest of maximum efficiency. Although

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<sup>16</sup>Sumner, "Is Liberty a Lost Blessing?," Earth-Hunger, . . ., p. 32.

<sup>17</sup>Ibid., p. 135.

<sup>18</sup>Ibid., pp. 132-135.

<sup>19</sup>Richard Hofstadter, Social Darwinism in American Thought (Boston: The Beacon Press, 1955), p. 56. Or see, Donald Calhoun, "American Masters and Contemporary Sociology," Social Forces, Volume 24 (1945), p. 20.

this cooperation may be vigorous though quite unintentional (Sumner terms it "antagonistic cooperation"), it does the job, that is, it leads to larger accumulations of wealth than would have occurred without it.<sup>20</sup> Once the goods have been extracted from nature by this cooperation-competition, the competition of man with man for the limited supplies of these goods occurs. The more successful the former kind of competition is in producing goods, the less severe and important the second kind of competition becomes in distributing goods.

Thus, the facts of reality (scarcity, diminishing returns, population pressure) force the perfection of the tools of economic growth which men use to break down the monopoly of nature. Using the organizational techniques of specialization, exchange and division of labor, along with emigration and technological change, men can assume the initiative in the struggle with nature, and achieve some command over the forces they had once had to accept. They can now challenge successfully the monopoly of nature and begin to command the productive factors necessary to increase the general level of economic welfare. The one essential factor which permits men to sustain industrial civilization is capital.

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<sup>20</sup>Charles A. Ellwood, The Story of Social Philosophy (New York: Prentice-Hall, Inc., 1938), p. 515.

### Capital

While land and population, and their related laws, can be termed the context of economic activity, and competition the force or "motive power" of industrialization, it is capital, or man-made producers' goods, which sustain industrial economic activity.<sup>21</sup> Capital is "the condition precedent of all gain in security and power," the "essential means of man's power over nature," and the "instrumentality by which from the beginning, man has won and held every step of this development of civilization."<sup>22</sup> The "extension of civilization" or the increase in economic growth without an increase in capital is impossible.<sup>23</sup>

So from the first step that man made above the brute the thing which made his civilization possible was capital. Every step of capital won made the next step possible, up to the present hour. Not a step has been made or can be made without capital.<sup>24</sup>

Capital helps man to gain and sustain civilization because it gives him a "lever" or advantage in the struggle for existence against nature--it makes him more productive.<sup>25</sup> Sumner says that capital is analogous to labor "multiplied

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<sup>21</sup>Sumner, "Who is Free? Is it the Civilized Man?," Earth-Hunger, . . ., p. 144.

<sup>22</sup>Sumner, "The Power and Beneficence of Capital," Earth-Hunger, . . ., p. 341.

<sup>23</sup>Ibid., p. 345.

<sup>24</sup>Sumner, What Social Classes, . . ., p. 54.

<sup>25</sup>Ibid., pp. 51-67.

into itself--raised to a higher power."<sup>26</sup> Because capital makes man more productive, he can now both produce more product and devote saved time and resources to the advancement of science and invention, which embodied in capital goods, lead to further increases in productivity and production. Thus, capital goods both directly and indirectly extend the entire industrial structure.

#### Quasi-Economic Factors

An interesting indirect application of capital to economic welfare is Sumner's conception of the "metaphysical side of capital."<sup>27</sup> Civilization not only benefits from the productivity of capital goods and the consumer goods they produce, but also by the "industrial atmosphere" which pervades the capitalistic system, and surrounds "everyone born into the society." A child, for instance, draws freely from a "common stock. . . a store of facts, knowledge, skills and the like which it cost the human race thousands of years to accumulate."<sup>28</sup> Everyone, no matter what his ability or income level, benefits indirectly from increases in the capital stock, since the greatest share of the benefits of capitalization--the metaphysical or cultural atmosphere--cannot be directly

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<sup>26</sup>Ibid., p. 54.

<sup>27</sup>Sumner, "Sociological Fallacies," Earth-Hunger. . ., p. 359.

<sup>28</sup>Ibid., pp. 359-360.

"appropriated" by anyone. It stands ready for all who would make use of it, and becomes the biggest economic bargain for all those engaged in the struggle for existence.<sup>29</sup>

The fundamental force in capital accumulation is quasi-economic; for Sumner, capital is the direct result of the "industrial virtues" of "industry, prudence, frugality, temperance, and self-reliance."<sup>30</sup> Sumner stresses this aspect again and again; ultimately, savings and capital accumulation depend on the industrial virtues, or, as he puts it, "the question of how well off we can be depends at last on the question how rational, virtuous, and enlightened we are."<sup>31</sup> This explicit relationship between ethics (virtues) and economics (capital accumulation) is an important aspect of Sumner's theory of capital and economic development.

. . . the limit of social well-being of the society in the progress of time depends on the possibility of increasing the capital faster than the numbers increase. But so soon as he [man] comes to consider the increase of capital, he finds himself face to face with ethical facts and forces. Capital is the fruit of industry, temperance, prudence, frugality and other industrial virtues. Here then the welfare of society is found to be rooted in moral forces, and the relation between ethical and social phenomena is given in terms of

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<sup>29</sup>Ibid., p. 359.

<sup>30</sup>Sumner, "The State as 'An Ethical Person'," The Challenge of Facts, . . . , p. 201.

<sup>31</sup>Ibid., p. 201.

actual facts and not of rhetorical abstractions.<sup>32</sup> Once a society has maximized economic output--given its existing moral development--it cannot "get anymore welfare, save by advancing the moral development."<sup>33</sup> Thus, conventional morality for Sumner is not simply some abstract ethical code which embodies the proper relationships between men, but rather it is the real and tangible foundation of the virtues which make capitalistic society possible; without the development of these virtues, progress and especially the elimination of poverty are impossible.<sup>34</sup> Moral forces are not antithetical to economic forces; on the contrary, he maintains that economic forces are the "handmaidens" of moral forces.<sup>35</sup> The virtues of self-reliance, independence, industriousness, prudence and temperance are the essential ingredients of his ethical and economic systems.

#### Capitalists and "Captains of Industry"

The person embodying these virtues, and initially responsible for making capital possible, is the small, independent, and quite numerous, savings-bank depositor--

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<sup>32</sup>Ibid., p. 201.

<sup>33</sup>Ibid., p. 202.

<sup>34</sup>Sumner, "The Abolition of Poverty," Earth-Hunger..., pp. 228-232.

<sup>35</sup>Sumner, "The Challenge of Facts," The Challenge of Facts... p. 30.

the capitalist. Sumner terms him the "hero of civilization" for his part in supplying the funds necessary for investment and capital accumulation.<sup>36</sup> Sumner's great regret here is that few savers actually understand the nature and importance of the function they perform, nor do they comprehend the importance of the investment function made possible by their savings.<sup>37</sup>

While the savings bank depositor is extolled by Sumner as the accumulator of savings, it is the captain of industry who actually creates and employs capital goods. The creation and employment of capital--by its very nature--require intelligence, boldness, foresight and fortitude; Sumner compares these necessary qualities to those found in great military leaders.<sup>38</sup> Thus the captains of industry, possessing the characteristics of generals, direct the forces of capital into the most profitable areas, and are--in the main--responsible for the great increases in wealth and social product. Without their skill and boldness, the essential task of capital formation would never occur.<sup>39</sup>

If Mr. A. T. Stewart made a great fortune by collecting and bringing dry-goods to the people

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<sup>36</sup>Sumner, "The Power and Beneficence of Capital," Earth-Hunger, . . ., p. 345.

<sup>37</sup>Ibid., pp. 352-353.

<sup>38</sup>Sumner, "The Absurd Effort to Make the World Over," War, . . ., pp. 199-200.

<sup>39</sup>Ibid., p. 201.

of the United States, he did so because he understood how to do that thing better than any other man of his generation. He proved it because he carried the business through commercial crises and war, and kept increasing its dimensions. . . . He and they together formed a great system of factories, stores, transportation, under his guidance and judgment. It was for the benefit of all; but he contributed to it what no one else was able to contribute--the one guiding mind which made the whole thing possible. In no sense whatever does a man who accumulates a fortune by legitimate industry exploit his employees, or make his capital "out of" anybody else. The wealth which he wins would not be but for him.<sup>40</sup>

#### Wealth and Property

Since the task of creating and applying capital requires great skill and entails high risk of loss, and because those few who possess these qualities and abilities have a natural monopoly of sorts, Sumner expects the monetary returns to be quite high. Thus, he finds the great fortunes earned by the few great entrepreneurs to be natural and necessary, and, if earned on a free market, the direct result of the economic factors involved; in fact, most large incomes can be explained simply by general supply and demand analysis.<sup>41</sup> Contrasted with the total wealth they help to create for the benefit of all, Sumner feels that the bargain as a whole is a good one for society.<sup>42</sup>

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<sup>40</sup>Sumner, What Social Classes. . ., p. 47.

<sup>41</sup>Ibid., p. 46.

<sup>42</sup>Sumner, "The Concentration of Wealth: Its Economic Justification," The Challenge of Facts. . ., p. 90.



Thus, Sumner lauds the "captains of industry" and their wealth for the pragmatic reason that these few individuals perform industrial society's most important function-- that of creating and employing capital productively to the end of satisfying man's wants.

Sumner also defends the property and wealth of the captains of industry and the "millionaires" because he sees no way to defend his own property, and that of his loved ones, unless he lends his support to the protection of all property. The fact that some millionaires are "idle or silly or vulgar" does not alter the argument at all; after all, how do they differ from any other social class in that respect?<sup>43</sup>

The reason why I defend the millions of the millionaire is not that I love the millionaire, but that I love my own wife and children, and that I know no way in which to get the defense of society for my hundreds, except to give my help as a member of society, to protect his millions.<sup>44</sup>

Last, and most important for an understanding of his political economy, Sumner refuses to accept the Marxian dictum that "an accumulation of wealth at one pole of society indicates an accumulation of misery and overwork at the other," or that because there are some rich there must,

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<sup>43</sup>Ibid., pp. 89-90.

<sup>44</sup>Sumner, "The Family and Property," Earth-Hunger..., p. 269.

necessarily, be many poor.<sup>45</sup> He claims that socialists misunderstand the nature of the origin of wealth;<sup>46</sup> in an industrial society, unlike any other, wealth is created, and those who have it need not have taken it from anyone.<sup>47</sup> It is conceivable, therefore, that those who are rich have created their own wealth.

In Rome, under the empire, wealth at one pole was a symptom of misery at the other, because Rome was not an industrial state. Its income came from plunder. The wealth had a source independent of the production of the society of Rome. That part of the booty which some got, others could not have. No such thing is true of an industrial society. . . . The rich were those who developed the opportunities of commerce which were, in the first instance, open to all. What they gained came out of nothing which anybody else ever had or would have had. The fact that there are wealthy men in England, France, and the United States today is no evidence that there must be poor men there. The riches of the rich are perfectly consistent with the high condition of wealth of all, down to the last. In fact, the aggregations of wealth, both which being made and after realization, develop and sustain the prosperity of all.<sup>48</sup>

All this does not mean, of course, that every rich man deserves or has earned his own wealth. Sumner recognizes--

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<sup>45</sup>Sumner, "What Makes the Rich Richer and the Poor Poorer," The Challenge of Facts, . . ., pp. 65-67.

<sup>46</sup>Ibid., p. 66.

<sup>47</sup>William Graham Sumner, "Free Trade," The William Graham Sumner Papers (New Haven, University Archive and Historical Manuscripts Collection, Yale University Library), pp. 6-7.

<sup>48</sup>Sumner, "What Makes the Rich Richer and the Poor Poorer," The Challenge of Facts, . . ., pp. 66-67.

and his critics for the most part have overlooked this recognition--the simple fact that conditions of heredity and "good and bad fortune" always distort to some degree the ideal of "wealth based upon merit." But at least "competition secures to merit all the chances it can enjoy under circumstances for which none of one's fellowmen are to blame."<sup>49</sup> As long as society passes no laws guaranteeing "property against the folly of its possessors," a fool and his inherited gold will soon be parted.

In the absence of such laws, capital inherited by a spendthrift will be squandered and re-accumulated in the hands of men who are fit and competent to hold it. So it should be, and under such a state of things there is no reason to desire to limit the property which any man may acquire.<sup>50</sup>

Of course, Sumner recognizes only too well that some men grow rich through non-market activities, through political manipulations and economic favors designed to circumvent the market. For these illegitimate businessmen or "plutocrats," however, Sumner saves his sharpest tongue and most abusive language. (See Chapter Four, part C.)

Thus in brief summation, capital--made possible by savers (capitalists) and actual by entrepreneurs (captains of industry)--supports an industrial society where men create and secure wealth and welfare. Both the type and nature of the economic activity differ essentially from

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<sup>49</sup> Ibid., p. 68.

<sup>50</sup> Sumner, What Social Classes, . . . , p. 50.

any economic system that pre-dates capitalism. This aspect of Sumner's analysis of capital formation is an important part of his economic philosophy.

### Capital Accumulation

While large fortunes are normal and to be encouraged, so are resulting concentrations of real capital. As civilization progresses, and as the tasks of production and the size of the market increase, Sumner maintains that the direct application of capital to production implies, necessarily, that capital will become more concentrated.<sup>51</sup> He looks upon concentrations of capital--typified by the formation of corporations--as both necessary and natural consequences of an economic evolutionary process. These accumulations are necessary because only huge aggregations of capital goods, under the direct control of the most skilled captains of industry, can meet the production and distribution problems of modern enterprise.<sup>52</sup> They are natural because they conform to the economic laws of maximum profit and maximum efficiency; concentrations of capital are to be welcomed because "there is economy in it."

. . .there is a true correlation between (a) the great productiveness of modern industry and the consequent rapid accumulation of capital from

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<sup>51</sup>Sumner, "The Concentration of Wealth: Its Economic Justification," The Challenge of Facts, . . ., pp. 81-90.

<sup>52</sup>Ibid., p. 83.

one period of production to another and (b) the larger and larger aggregations of capital which are required by modern industry from one period of production to another . . . Now whenever such a change in the societal organization becomes possible it also becomes inevitable, because there is economy in it. If we confine our attention to industrial undertakings. . . we can see that the highest degree of organization which is possible is the one that offers the maximum of profit; in it the economic advantage is greatest. There is therefore a gravitation toward this degree of organization.<sup>53</sup>

It is the consequence of the principle just stated that at every point in the history of civilization it has always been necessary to concentrate capital in amounts large relative to existing facts.

. . . If we are willing to be taught by the facts, then the phenomena of the concentration of wealth which we see about us will convince us that they are just what the situation calls for. They ought to be because they are, and because nothing else would serve the interests of society.<sup>54</sup>

As capital accumulates, it increases man's social and industrial power over nature, and allows man to make advances in "science, fine arts, literature, and education which react again on the social power to stimulate it and accelerate the rate of its activity, thus increasing its efficiency. . . ."<sup>55</sup>

. . . it is only when there is some surplus power already at one's disposal that time can be spent on science and invention, which do nothing for the time being for the support of the worker.

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<sup>53</sup> Ibid., p. 85.

<sup>54</sup> Ibid., p. 86.

<sup>55</sup> Sumner, "Power and Progress," The Challenge of Facts, . . ., p. 148.

The great advance in invention during the last hundred years is itself one consequence of increased social power.<sup>56</sup>

The economic activity of capital accumulation both depends upon and sustains non-economic and quasi-economic activity. Again and again this process repeats itself, while each new accumulation of capital and advance in the arts lessens the struggle for existence. The end result of this long process is the fact that "we all, in a measure, live above the grade of savages, and some. . . reach comfort and luxury and mental and moral welfare."<sup>57</sup> Thus, capital goods and capital accumulation are the spearheads of economic growth and development that lift the human race--which "began in utter destitution with no physical or metaphysical endowment whatever"--to a stage where men can achieve and enjoy increases in wealth and welfare.

The economic system of Sumner may be briefly summarized as follows:

- (1) Men must struggle to derive from nature the economic goods necessary to sustain and advance life and well-being.
- (2) Men face--as a metaphysical necessity--physical and

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<sup>56</sup>Sumner, "Consequences of Increased Social Power," The Challenge of Facts, . . ., p. 154.

<sup>57</sup>Sumner, "Reply to a Socialist," The Challenge of Facts, . . ., p. 57.

social facts or laws which are the context within which they must rationally pursue their goals. It is the task of the sciences to understand these facts and forces, and to discover the range within which man can operate to apply these forces in pursuit of his goals. Political economy is that sub-area of the Social Sciences which seeks to discover the range within which the economic laws of rent and population, and generally, the laws of supply and demand, can be used by man in pursuit of economic advantage.

- (3) Men, within the context of economic laws, and facing the metaphysical fact of economic scarcity, have, over time, derived the goods to sustain their existence. Capital, made possible by the virtues of savers, and actual by the virtues of businessmen, is the absolute requisite to economic growth. Significant economic growth is possible only under a system of large-scale industry. Both the accumulations of capital and the fortunes made from enterprise are normal and to be protected.

## CHAPTER FOUR

### GOVERNMENT AND POLITICAL ECONOMY

The function of this first section is to carry Sumner's thought from the science of economics to the art of political economy. The transitional bridge will be constructed around Sumner's definition and analysis of "liberty" and its relationship to economics. For him, an examination of the idea of liberty is not a subjective digression into non-economic human values. It is developed almost completely from antecedent economic ideas, and is integral to the structure of his political economy. It must be noted that the special definitions and ideas developed in this section are exclusively Sumner's, and bear no necessary relation to similar-sounding concepts in modern usage.

#### Liberty

Sumner holds that the words "freedom" and "liberty" refer only to "chances" and not to "results." He states that "personal liberty is nothing but a name for a series of chances, or for a life to which chances have access."<sup>1</sup>

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<sup>1</sup>Sumner, "Liberty and Opportunity," Earth-Hunger..., p. 180.



"Freedom" and "liberty" are the "chances" men have in their relation with nature and other men, or the opportunities men have to choose among alternatives. Civil liberty is "nothing but social security for such use of the chances," or, as he puts it:

Civil liberty is the status of the man who is guaranteed by law and civil institutions the exclusive employment of all his own powers for his own welfare.<sup>2</sup>

Economics becomes important in Sumner's definition of "liberty" and "civil liberty" because it is the economic system which provides these "chances," and it is the economic system--backed by political action--which sanctions the right of private property, or that decisive institutional arrangement which guarantees that man may indeed employ "all his own powers for his own welfare."

#### Liberty and Property

Sumner maintains that liberty (chances) and property (exclusive employment of chances) are the twin touchstones of an advanced industrial civilization, and that one cannot exist without the other.<sup>3</sup> Liberty, in the sense of opportunities, develops from an advancing industrial society, and the right to the free use of property secures

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<sup>2</sup>Sumner, "The Forgotten Man," The Forgotten Man..., p. 472.

<sup>3</sup>Sumner, "Liberty and Property," Earth-Hunger..., p. 174.

liberty. History clearly shows, he maintains, that whenever the right to the exclusive use of property is interfered with or ignored by the state, liberty declines.

The history of the Middle Ages, when studied objectively and not romantically, fully sustains these dicta. The history of modern civilization from the ninth and eleventh centuries. . .down to the present time, reveals the course by which liberty and property have been developed together; but at the same time it reveals that they have grown together only when property has been secure, and the right of property has been strictly maintained, and that nothing has ever been more fatal to liberty than socialistic abuse of property.<sup>4</sup>

Thus, in Sumner's thought, "freedom" and "property" are integrated concepts: capital accumulation and industrial civilization make his idea of liberty possible, and capitalistic institutions--especially private property--make it secure.<sup>5</sup> Liberty or freedom is not the product of speeches, of nature, or of metaphysics, but the product of an advancing economic system.<sup>6</sup>

#### Natural Rights

Sumner holds that no other definitions of liberty or freedom are intelligible; he specifically rejects the definitions and theories of "liberty" developed by the "nat-

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<sup>4</sup>Ibid., p. 174.

<sup>5</sup>John Chamberlain, Farwell to Reform (New York: John Day Co., 1933), p. II.

<sup>6</sup>Sumner, "What is Civil Liberty?" Earth-Hunger. . ., pp. 128-129.

ural rights" school.<sup>7</sup> If natural liberty means "unrestrainedness, emancipation from law, lawlessness, and antagonism to law," then it is simply a plea for anarchy, not freedom, and no such condition is possible to civilized man.<sup>8</sup> If natural rights mean "man emancipated from the struggle for existence and assured everything he needs" then the notion is the "grandest of human delusions."<sup>9</sup> Since there is no "boon of nature," man can never be "emancipated" from the struggle for existence; nature does not "give" man anything. The whole idea of "natural right" is a superstition of the eighteenth century philosophers.<sup>10</sup>

The key superstition, originated by J. J. Rousseau, is the myth concerning the "noble savage," that "unspoiled. . .untutored, son of nature" who lives free and happy in a state of nature, but becomes unfree and unequal with the emergence of industrial society. Nothing, Sumner maintains, is more inaccurate.<sup>11</sup> Man in a primitive state

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<sup>7</sup>William Graham Sumner, Collected Essays in Political and Social Science (New York: Henry Holt and Co., 1885), p. 98. Or see, Sumner, "What is Civil Liberty?," Earth-Hunger. . ., pp. 117-118.

<sup>8</sup>Sumner, "Is Liberty a Lost Blessing?," Earth-Hunger. . ., p. 131.

<sup>9</sup>William Graham Sumner, "The Disappointment of Liberty," The Independent, July 17, 1890, p. 5.

<sup>10</sup>Sumner, "What is Civil Liberty?," Earth-Hunger. . ., p. 118.

<sup>11</sup>Sumner, "Is Liberty a Lost Blessing?," Earth-Hunger. . ., p. 132.

of society does not enjoy any "conditions of liberty" in any accepted sense of the word; in the beginning, nature holds him as tightly as she holds natural resources.

Sumner holds that man is necessarily burdened with the "weight of existence," that is, "all human and earthly life is conditioned on physical facts," and these facts prevent man from doing or having anything he wishes.

Liberty to do as one pleases is not of this world, for the simple reason that all human and earthly existence is conditioned on physical facts. The life of man is surrounded and limited by the equilibrium of the forces of nature, which man can never disturb, and within the bounds of which he must find his chances.

If that seems too ponderous and abstract for the reader, it may be interpreted as follows. Man must get his living out of the earth. He must, in so doing, contend with the forces which control the growth of trees, the production of animals, the cohesion of metals in ores; he must meet conditions of soil and climate. . .<sup>12</sup>

Thus physical facts--scarcity, the laws of economics, chemistry, physics--restrain man, and of course restrained the primitive savage the most tightly of all.<sup>13</sup> It is only with the emergence of an industrial civilization, with the extensive accumulation and application of capital which helps to ease the burden of existence, that man can attain any semblance of freedom or "elbow room" in the physical world. In other words, Sumner holds, it is only with the

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<sup>12</sup>Sumner, "Liberty and Responsibility," Earth-Hunger. . ., p. 156.

<sup>13</sup>Sumner, "Sociological Fallacies," Earth-Hunger. . ., p. 362.

development of a capable, viable economic system--supported by capital goods--that freedom has any meaning whatever.<sup>14</sup> Therefore, the eighteenth century philosophers are quite wrong both in their conception of liberty and their recollection of historical facts. When they base public policy on these mythical and speculative notions, they turn a simple intellectual error into a matter of the utmost concern.

The policy suggestions of the eighteenth and nineteenth century philosophers have taken many forms. Sumner notes that most of these proposals are characterized by presumptions that man has the right to "equality, the full product of his labor, capital, and an existence." He holds that these pronouncements are politically and economically faulty because the "demand for equal rights soon deteriorates into demands for equal enjoyments," where people not only have a right to pursue happiness, "but to get it, and if they fail to get it, you must get it for them."<sup>15</sup> This Sumner feels is a return to the Dark Ages of political theory and history, to the feudal, master-slave system of duties and obligations, where "groups of people. . . have a claim to other people's labor and self denial," and where the labor and self denial of one man "may be diverted from his maintenance to that of some

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<sup>14</sup>Sumner, "Liberty and Law," Earth-Hunger. . ., p. 362.

<sup>15</sup>Sumner, What Social Classes. . ., p. 14.

other man" by the state.<sup>16</sup> Thus, the definition of liberty developed by the "natural rights" school leads logically and consistently to the very absence of civil liberty, and to the imposition instead of political absolutism.<sup>17</sup> Sumner notes in particular that the socialists are the most consistent political and economic spokesman of this view of liberty in all its ramifications.<sup>18</sup>

In brief summation, Sumner feels that man is neither born with, nor does he inherit natural right to anything. Everything that man needs to sustain his life must be derived by man himself through work and self denial. An advancing industrial civilization based on capital goods provides the opportunities for sustaining life, and opens up the "chances" which are the essence of "liberty." Laws, enforced by government, to ensure that man can exclusively keep, use, or dispose of gains derived from "chances," are the essence of "civil liberty." Unfortunately, for an understanding of his political economy, Sumner does not detail these laws.

#### Government

It is the political ideal of William Graham Sumner to

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<sup>16</sup>Ibid., pp. 14-15.

<sup>17</sup>Sumner, "Liberty and Law," Earth-Hunger, . . . , p. 161.

<sup>18</sup>Sumner, "The Challenge of Facts," The Challenge of Facts, . . . , pp. 36-38, 47. Or see, Sumner, "What is Civil Liberty?," Earth-Hunger, . . . , p. 130.

secure in political institutions the preceding definition of civil liberty. As he himself states:

It is therefore the highest product of political institutions so far that they have come to a point where, under favorable circumstances, individualism is, under their protection, to some extent possible. If political institutions can give security for the pursuit of happiness by each individual, according to his own notion of it, in his own way, and by his own means, they have reached their perfection.<sup>19</sup>

It is the direct task of government to create and preserve that "security for the pursuit of happiness" which crystallizes in the concept of civil liberty. One cannot rely on the "unorganized mass of well-intentioned citizens" to preserve order and liberty; although that method might do for a frontier community, it would certainly not do for a complex industrial society.<sup>20</sup> Formal government is a necessity. The questions then become: (1) what type of government is suitable to the ends of securing civil liberty; and (2) what institutional tools would this government employ in the proper fulfillment of its legitimate tasks.

### Democracy

For Sumner, the general term "democracy" means "the

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<sup>19</sup>Sumner, "State Interference," War, . . . , pp. 219-220.

<sup>20</sup>William Graham Sumner, "The Strikes," The William Graham Sumner Papers, (University Archive and Historical Manuscripts Collection, Yale University Library), p. 3.

rule of the many" or a state where "all those who are once admitted to political power are equal and that the power lies with the numerical majority of these equal units."<sup>21</sup> However, the general term can be sub-divided. The first kind of "democracy"--and the simplest-- is "pure democracy," as exemplified by the New England town meeting.

There is in the town democracy no government, properly speaking; there are no institutions, or the institutions are of a very rudimentary character. The officers are only administrative functionaries; their powers are closely defined and limited, they act under immediate direction, they exercise routine functions, have no initiative and little discretion. In the town meeting the initiative lies with the individual citizen; that body also retains in its own hands the whole formative process and acts by committees when it is necessary to form measures which the mass meeting cannot conveniently do. The execution of special undertakings is also entrusted to committees or commissions created for the purpose.<sup>22</sup>

Another type of "democracy" is "representative democracy" where the sovereign citizens send "delegates" in their place to perform a specific duty. "The delegates are agents of local and other interests who are sent into an arena where interests are lost or won, to fight for particular ones. They do not, therefore, form a great council of the nation, but a body of struggling and scrambling

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<sup>21</sup>Sumner, "Definitions of Democracy and Plutocracy," Earth-Hunger, . . ., p. 293. See also, Sumner, "Advancing Organization in America," The Challenge of Facts, . . ., p. 305.

<sup>22</sup>Sumner, "Responsible Government," The Challenge of Facts, . . ., p. 257.



attorneys."<sup>23</sup> The great fault of "representative democracy"--and in all the "democracies" that Sumner defines--lies "in its weakness in the face of local demands and interested cliques."

A system which is a representative of interests looks upon the effort to get what one wants as natural and in the order of things, to be resisted by those only whose interests may be threatened. The conflict of politics therefore degenerates into a struggle of will-force measured by votes; arguments are thrown away in all battles--when two bodies of men with opposing determinations meet, then force of the kind suited to the arena must decide. Hence the weakness of the representative democracy, in its inability to give support to the public interest, or the national welfare, or a permanent policy, or a far-sighted benefit, in the face of a sectional demand, or a temporary and short-sighted desire of a large number, or the selfish purpose of a strong clique.<sup>24</sup>

Since there seem to be no other important institutional structures besides majority rule in Sumner's conception of "democracy," it is no surprise that this "democracy" always degenerates into oligarchy or jacobinism.

In the working of majority rule it always degenerates into oligarchy; a majority of a majority is endowed with power, in one sub-division after another, until at last a few control. . . The degenerate form of democracy, when it runs out into an oligarchy or when it is entirely unregulated by constitutional provisions, is often designated as jacobinism. It is the rule of the clique, arrogating to itself the name of the people or the right to act for the people.<sup>25</sup>

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<sup>23</sup>Ibid., p. 260.

<sup>24</sup>Ibid., pp. 270-271.

<sup>25</sup>Sumner, "Advancing Organization in America," The Challenge of Facts, . . . , p. 305.

Sumner claims that the heart of "democracy" is atomistic equality and majority rule.<sup>26</sup> The essential nature of "democracy" differs little from any other political dogma; it is just another "ocracy."<sup>27</sup> Instead of class rule by one (autocracy), it is class rule by the majority, a form of "democratic absolutism," which is as "slavish and false as any doctrine of royal absolutism."<sup>28</sup> It is "slavish and false" because the notion of equality cannot be true in fact, nor should it be; "the dogma that men are equal is the most flagrant falsehood and the most immoral doctrine which men have ever believed."<sup>29</sup> It is also slavish and false because majority rule is a perfect mechanism for destroying Sumner's conception of civil liberty. Sumnerian democracy is a body of doctrine which contains no guarantees that it will act to preserve liberty and private property.<sup>30</sup> More than likely, he maintains, the sovereign majority will "aggrandize itself" like any despot holding power, while at the same time propagating dogmas about the "divine right of the sovereign to rule," and the

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<sup>26</sup>Sumner, Collected Essays . . . , p. 103.

<sup>27</sup>William Graham Sumner, Essays of William Graham Sumner, ed. Albert Galloway Keller, Maurice R. Davie, (New Haven: Yale University Press, 1934), p. 218.

<sup>28</sup>Sumner, "Advancing Social and Political Organization in the United States," The Challenge of Facts . . . , p. 305. Or see, Sumner, Collected Essays . . . , p. 103.

<sup>29</sup>Sumner, "Sociological Fallacies," Earth-Hunger . . . , p. 362.

<sup>30</sup>Sumner, "Politics in America, 1776-1876," The Forgotten Man . . . , p. 290.

"duty of passive obedience" by the outnumbered minority.<sup>31</sup>

He concludes:

Democracy, then is primarily dogma, and as to dogmas the question always is are they true? Now the dogma of equality is not true, and the dogma of the right of the masses to rule is not true. The evil of all the old governments, autocracies, oligarchies, and aristocracies, was (1) that they were class governments, and (2) that they involved arbitrary power. The complete condemnation of democracy is that it is class government like all the rest, only that the power is given to a different class, and it involves arbitrary power.<sup>32</sup>

Sumner maintains that the political form of government which he describes as "democracy" had been almost inevitable in the United States. It arose spontaneously from the "facts of economic life" and not from the words of enlightened statesmen.<sup>33</sup> He holds that America is democratic because "the ratio of population to land" is such that she can be nothing else; it is the "industrial and social power of the masses of the population in a new country with unlimited land" which has made us democratic.<sup>34</sup> To speak of political aristocracy or monarchy in an economically classless, independent-style farmer economy, with

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<sup>31</sup>Ibid., pp. 290-291.

<sup>32</sup>Sumner, Collected Essays, . . . , p. 104.

<sup>33</sup>Sumner, "Advancing Social and Political Organization in the United States," The Challenge of Facts..., p. 296.

<sup>34</sup>Sumner, "What Emancipates," The Challenge of Facts, . . . , p. 140.

unlimited amounts of land, it to talk nonsense.<sup>35</sup>

Thus, "democracy" is almost inevitable given the economic conditions of large amounts of land and a heavy demand for men.<sup>36</sup> Its passing is also inevitable when the economic conditions which sustain democracy disappear. For Sumner, "democracy" is an evolutionary political phase, which is left behind "as inevitably as an infant after birth must go on to the stages of growth and experience."<sup>37</sup> He regards it as a necessary stage in the political development of a young country, but thinks it completely unworkable and impractical for an "old," crowded, industrially mature country, where it offers nothing "but a short road to Caesarism."<sup>38</sup>

#### Republican Government

The type of governmental institutional arrangement most acceptable to Sumner is "republicanism," "a form of self-government in which the authority of the state is conferred for limited terms upon officers designated by

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<sup>35</sup>Sumner, "Advancing Social and Political Organization in the United States," The Challenge of Facts..., p.338.

<sup>36</sup>Sumner, "What Emancipates," The Challenge of Facts..., p. 140.

<sup>37</sup>Sumner, "Advancing Social and Political Organization in the United States," The Challenge of Facts..., p.331.

<sup>38</sup>Sumner, "Democracy and Responsible Government," The Challenge of Facts..., p. 275.

election."<sup>39</sup> This political form, and not "democracy," had been the original idea of the "founding fathers"--especially Hamilton--and only republicanism insured that the "majority shall be constitutionally expressed and that it shall be a sober, mature, and well considered will."<sup>40</sup>

The framers of the Constitution, without having any precise definition of a republic in mind, knew well that it differed from a democracy. No one of them was a democrat. They were, at the time of framing the Constitution, under an especial dread of democracy, on account of the rebellion in Massachusetts. They meant to make a Constitution in order to establish organized or articulated liberty, giving guarantees for it which should protect it from popular tyranny as much as from personal despotism. Indeed, they recognized the former as a great danger, the latter as a delusion. They therefore established a constitutional republic. The essential feature of such a system of government (for it is a system of government, and not a political theory) is that political power be conferred under a temporary and defensible tenure.<sup>41</sup>

Sumner holds that democracies and republics differ in intended goals and in institutional tools necessary to achieve goals. He believes that the major goal of democracy is "equality," and that majority rule is the institutional tool equipped to achieve--through legislation--

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<sup>39</sup>Sumner, "Republican Government," The Challenge of Facts. . ., p. 226.

<sup>40</sup>Sumner, "Advancing Social and Political Organization in the United States," The Challenge of Facts. . ., p. 334.

<sup>41</sup>Sumner, "Politics in America, 1776-1876," The Forgotten Man. . ., pp. 289-290.

exactly that end. A republic, on the other hand, aims to preserve civil liberty.

I beg here to emphasize the distinction between a democracy and a republic because the people of the United States, living in a democratic republic, almost universally confuse the two elements of their system. Each, however, must stand or fall by itself. . . If the principle of equality is what we aim at we can probably get it--we can all be equally slaves together. If we want majority rule, we can have it--the majority can pass a plebiscite conferring permanent power on a despot. A republic is quite another thing. It is a form of self-government, and its first aim is not equality but civil liberty. . . It surrounds the individual with safeguards by its permanent constitutional provisions and by no means leaves the individual or the state a prey to the determination of a numerical majority.<sup>42</sup>

Since civil liberty refers to the status of a man who is "guaranteed the use of all his own powers exclusively for his own welfare," a republic, by Sumner's definition, is a formal set of institutional arrangements in which a man's life and property are guaranteed safe from expropriation by the government or other men. It must be noted that the difference between "democracy" and "republicanism" is completely definitional. Sumner defines "democracy" such that it does not embrace the principles of his definition of "republicanism." In effect, "democracy" plus the appropriate institutions to protect civil liberty is "republicanism."

Sumner's definition of republican government is char-

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<sup>42</sup>Sumner, "Republican Government," The Challenge of Facts, . . ., pp. 226-227.

acterized by the institutional safeguards it erects between the individual and the state. Among the most crucial of these devices--which Sumner simply names but does not elaborate upon--are (1) a constitution,<sup>43</sup> (2) a system of checks and balances,<sup>44</sup> (3) a system of political parties,<sup>45</sup> and (4) an orderly election procedure.<sup>46</sup> Other less important institutional devices which can act as "checks on democracy," are the presidential veto, the power of the Senate, and the "prerogatives of the judiciary."<sup>47</sup> To make these safeguards effective requires a population which has a "high state of intelligence, political sense, public virtue," and "extraordinary independence, power to resist false appeals, far sighted patriotism, and patient reflection."<sup>48</sup> The results of republicanism will be coincident with the degree of "political virtue" attained by its citizenry. To the extent that a

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<sup>43</sup>Sumner, "Advancing Social and Political Organization in the United States," The Challenge of Facts, . . . p. 335.

<sup>44</sup>Ibid., p. 335.

<sup>45</sup>Sumner, Collected Essays, . . . , p. 108.

<sup>46</sup>Sumner, "Republican Government," The Challenge of Facts, . . . , p. 226.

<sup>47</sup>Sumner, "Advancing Social and Political Organization in the United States," The Challenge of Facts, . . . , p. 335.

<sup>48</sup>Sumner, "Republican Government," The Challenge of Facts, . . . , p. 227.

political system can embody both the institutional devices and the intellectual virtues listed, it can undertake the task of republican government. Sumner was not overly optimistic concerning the ability of any political system to do this, however.

Elections are an important element in republican government, and Sumner details many subtle points in this regard.<sup>49</sup> For instance, the theory of republican government assumes that the ballot is an adequate device for getting an accurate expression of public thought or will. However, this assumption--when applied to the real political world--may be very unrealistic if (1) the voters who cast ballots have no definite opinions about issues, and are apathetic and uneducated, or (2) if the balloting procedure itself, either casting or counting, is replete with fraud and error. If either situation exists, the ballot is not an adequate device for determining public will. Public balloting is also quite inappropriate for the purpose of electing administrative officials; here, public knowledge to form an accurate judgement as to fitness of candidates is simply not available. In this area, specifically, executive appointment or a Civil Service System will probably provide much better results than the system in use.<sup>50</sup>

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<sup>49</sup>Sumner, Collected Essays, . . ., pp. 114-119.

<sup>50</sup>Ibid., pp. 113, 139.



Sumner makes other suggestions for election reform. He advocates a complete overhaul of the nomination system, which he considers the real center of power of the election system.<sup>51</sup> He maintains that the present nominating system is too complicated, and also quite dangerous, since it concentrates ultimate power "in the hands of a few who, by concerted action, are able to control the result."<sup>52</sup> Thus, so-called "popular nomination" is merely a sham for minority control and the exercise of "improper influence" by those in power.

Sumner also makes a general plea for less frequent elections.<sup>53</sup> He is convinced that the cost of nomination and election are becoming prohibitive, while the frequency of elections disturbs the economic outlook of businessmen.<sup>54</sup> By suggesting less frequent elections, he hopes that both of these problems--especially the "disruptive" economic effects of elections--can be eliminated or greatly curtailed. In general, he supports all political reform which he feels is aimed at perfecting the republican institutions in their task of sustaining civil liberty. He considers such reform "absolutely essential to Union, to national life, to self-government, to peace,

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<sup>51</sup>Sumner, "Republican Government," The Challenge of Facts, . . ., p. 232.

<sup>52</sup>Ibid., p. 231.

<sup>53</sup>Sumner, Collected Essays. . ., p. 139.

<sup>54</sup>Ibid., p. 147.

and to prosperity."<sup>55</sup>

Although Sumner believes that the election procedure is important, its importance should not be overestimated. Elections themselves are no guarantee of good government, nor do they necessarily guarantee a proper respect for civil liberty and property. The only guarantees of good government are "the institutions of civil liberty which have been wrought out by centuries of experience, and are now secured by constitutional provisions."<sup>56</sup> An interesting final note is that Sumner believes that the greatest threat to these civil liberties and to good government come, not from the executive branch of the government, but from a "momentary popular majority" in the House of Representatives.<sup>57</sup>

#### Political Economy

The primary function of republican government is to preserve civil liberty; for Sumner, this means essentially to maintain order, administer justice, and protect private property.<sup>58</sup> In pursuit of these goals the government may

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<sup>55</sup>Sumner, "What Has Become of Reform?", The William Graham Sumner Papers, pp. 7-8.

<sup>56</sup>Sumner, Collected Essays, . . ., p. 134.

<sup>57</sup>Ibid., pp. 157-158.

<sup>58</sup>Sumner, "The Forgotten Man," The Forgotten Man..., p. 487.

also legitimately--if enlightened--"collect information... and furnish public facilities," and even establish bureaus of Agriculture, Education, Statistics and Census.<sup>59</sup> However, as a general rule, laissez-faire is the proper governmental philosophy, and the soundest political economy for statesmen to observe. What laissez-faire means, and why it is the soundest, most reasonable public policy is the topic of this section.

#### Laissez-faire

For Sumner, as for Bastiat and Spencer, laissez-faire does not mean "things left to themselves" or "the unrestrained action of nature"; on the contrary, it means "the . . . rational application of human intelligence to the assistance of natural development."<sup>60</sup> Sumner holds that the French merchants had put it exactly: "Let us manage ourselves."<sup>61</sup> Thus, he conceives laissez-faire to be a policy of self-management where individuals apply brains "to trade and industry so as to develop and improve them," without the guidance or wisdom of interfering statesmen or legislators. To the statesman the warn-

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<sup>59</sup> Sumner, "Democracy and Responsible Government," The Challenge of Facts. . ., p. 278.

<sup>60</sup> Sumner, Essays of William Graham Sumner, Volume II, ed. A. G. Keller, M. R. Davis (New Haven: Yale University Press, 1934), p. 469.

<sup>61</sup> Ibid., p. 468.

ing is clear: "do not meddle. . .do not regulate. . .do not give orders. . ." <sup>62</sup>

### Plutocracy

But why does Sumner feel "that the best way to minimize the dangers to democracy, and from it, is to reduce to the utmost its functions, the number of its officials, the range of its taxing power, the variety of its modes of impinging on the individual, the amount and range of its expenditures, and in short, its total weight. . ." <sup>63</sup>

Sumner's essential reason for upholding the philosophy of non-involvement by government in private economic affairs is that he fears the political, economic, and moral consequences of plutocracy. He defines plutocracy as a "political form in which the real controlling force is wealth"; in this political form, wealthy interest groups control and manipulate the legislative machinery in their own economic interests. <sup>64</sup> A plutocrat is a "man who, having the possession of capital, and having the power of it at his disposal, uses it, not industrially, but politically; instead of employing laborers, he enlists lobby-

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<sup>62</sup> Ibid., pp. 468-472.

<sup>63</sup> Sumner, "Democracy and Modern Problems," Earth-Hunger, . . ., p. 304.

<sup>64</sup> Sumner, "Definitions of Democracy and Plutocracy," Earth-Hunger, . . ., p. 293.

ists."<sup>65</sup>

Plutocracy, by its very nature, invites vicious lobbying for special favors, legislation, exclusive franchise and monopoly privileges, by all sorts of diverse economic groups which seek to enhance their economic positions, not through the market, but through political privileges designed to "get around the market." Economically, this is disastrous since monopoly privileges fetter competitive enterprise and deter economic growth. Politically, plutocracy turns the legitimate functions and powers of government into a political "blackjack" to be wielded by the wealthiest pressure groups against their enemies, and eventually, the rest of the population. It practically assures political graft and corruption, the undermining of governmental morality, and the general deterioration of any serious respect for the ideas of republican government. In fact, civil liberty becomes incompatible with the aims and methods of plutocracy.<sup>66</sup>

Looked at from any angle, plutocracy is:

. . .the most sordid and debasing form of political energy known. . .In its motive, its processes, its code, and its sanctions, it is in-

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<sup>65</sup> Sumner, "Conflict of Plutocracy and Democracy," Earth-Hunger. . ., p. 297.

<sup>66</sup> Sumner, "An Examination of Noble Sentiment," Earth-Hunger. . ., p. 215.

finitely corrupting to all institutions, which ought to preserve and protect society.<sup>67</sup>

Thus, Sumner fears plutocracy because this unholy alliance of political and economic power will most assuredly destroy his conception of civil liberty and republican government, and his vision of an efficient, rational economic system capable of change and growth. Given these facts, the only wise and intelligent policy in the field of political economy is to minimize to the utmost the relations of government to industry.<sup>68</sup> Sumner believes that a separation of state and market--like church and state--will "cut the ground from under plutocracy."<sup>69</sup> Hence, he supports laissez-faire because it is the only political economy which can avoid plutocracy.

In general, a democracy or a republican form of government becomes plutocratic through "special interest" legislation, or what Sumner refers to as speculative legislation. It is through such measures as the Interstate Commerce Act, the Bland Silver Bill, proposals for bimetallism, the tax on oleomargarine and in general all subsidies, tariffs and taxes that the alliance between capital

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<sup>67</sup>Sumner, "Definitions of Democracy and Plutocracy," Earth-Hunger, . . ., p. 295.

<sup>68</sup>Sumner, "Conflict of Plutocracy and Democracy," Earth-Hunger, . . ., p. 300.

<sup>69</sup>Sumner, "Separation of State and Market," Earth-Hunger, . . ., p. 310.

and political power is conceived and sustained.<sup>70</sup> Sumner dogmatically opposes all such legislation, and his opposition can be specifically separated into political and economic areas. (His opposition to such legislation on moral grounds will be covered in a later section.)

Politically, Sumner opposes all special interest legislation because it tends to enhance the forces of plutocracy by destroying any meaningful concept of civil liberty. All tariffs, taxes, and subsidies flout his definition of civil liberty where "a man is guaranteed by law and civil institutions the exclusive employment of all his own powers for his own welfare."<sup>71</sup> If the products and fruits of the "powers" of man--his property--can be taken in the form of taxes and given to another in the form of tariffs or subsidies, and if this redistribution of wealth can be determined by self-interested pressure groups, then the original concept of civil liberty and republican government clearly becomes meaningless. Plutocracy, like Sumner's "degenerate democracy,"

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<sup>70</sup>L. L. Bernard, "The Social Science Theories of William Graham Sumner," Social Forces, Vol. XIX (December, 1940), pp. 153-175. Sumner referred to this sort of legislation as "speculative." "Any legislation which does not proceed out of antecedents, but is invented in order to attain to ideals, is necessarily speculative; it deals with unverified and unverifiable propositions and lacks all guarantees of its practicability or of the nature of its results." Sumner, "Speculative Legislation," The Challenge of Facts, . . ., p. 215.

<sup>71</sup>Sumner, "The Forgotten Man," The Forgotten Man, . . ., p. 472.

can never guarantee to man the exclusive ownership and use of his own wealth in his own way for his own exclusive purposes. By definition, it seeks to alter these relationships. Sumner also opposes this type of speculative legislation because most of it is politically ill-conceived, hastily assembled, and passed in ignorance of its content or true consequences.<sup>72</sup>

However, the most important aspect of Sumner's opposition to speculative legislation is economic; in a word, speculative legislation is simply bad economics. As a general indictment, such legislation always tends to fall behind the times, always tends to become dated as the economic circumstances which had originally given rise to the legislation necessarily change.<sup>73</sup> Thus, the legislation always becomes ill-fitted to the new economic situation, and works undeserved hardships on all new economic groups and interests. Sumner holds that the Medieval guild system, with regulations on prices and wages, is a perfect case where the legislative "privilege of one age became the bondage of the next," and where the system of legislative enactments became a "fetter on individual enterprise and success," and an effective deterrent to economic growth and development.<sup>74</sup>

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<sup>72</sup>Sumner, "Legislation By Clamor," The Challenge of Facts, . . ., p. 189.

<sup>73</sup>Sumner, "State Interference," War, . . ., pp. 213-228.

<sup>74</sup>Ibid., p. 217.



Here was plainly a complete system, which had a rational motive and a logical method. The object was to keep all the organs of society in their accepted relations to each other and to preserve all in activity in the measure of the social needs. The plan failed entirely. It was an impossible undertaking, even on the narrow arena of a medieval city. The ordinances of an authority which stood ready to interfere at any time and in any way were necessarily inconsistent and contradictory.<sup>75</sup>

Applying the concept of a medieval system to modern governmental regulations, Sumner implies that partial regulation is unstable, and soon spreads--within a system of plutocracy--to encompass all economic areas. Once the legislative doors are opened, all special interest groups seek advantages vis-a-vis one another. This, again, is unfortunate.

The fact should not be overlooked here that, if we are to have the medieval system of regulation revived, we want it altogether. That system was not, in intention, unjust. According to its light it aimed at the welfare of all. It was not its motive to give privileges, but a system of partial interference is sure to be a system of favoritism and injustice. It is a system of charters to some to plunder others. A medieval sovereign would never interfere with railroads on behalf of shippers and stop there. He would fix the interest on bonds and other fixed charges. He would, upon appeal, regulate the wages of employees. He would fix the price of coal and other supplies. He would never admit that he was the guardian of one interest more than another, and he would interfere over and over again as often as stockholders, bondholders, employees, shippers, etc., could persuade him that they had a grievance. He would

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<sup>75</sup>Ibid., p. 216.

do mischief over and over again, but he would not do intentional injustice.<sup>76</sup>

Another even more serious economic consequence of speculative legislation is its ironic propensity to produce the opposite results of those intended by the legislation. Sumner notes a number of cases of this curious phenomenon in his writings,<sup>77</sup> and attributes part of the reason for it to the fact that "our solutions have a far greater chance to be wrong than to be right."<sup>78</sup>

A better explanation, however, and a more analytical one, is that most speculative legislation interferes with the laws of supply and demand such that the opposite private economic behavior from that intended by the legislation is encouraged. Sumner was familiar with this explanation (illustrated best in Herbert Spencer's Social Statics,<sup>79</sup> to which Sumner had access) and applies its principles many times in his examination of such items as tariffs, railroad legislation, paper money and usury laws. In these instances, the speculative legislation does not produce the results intended because (1) the cost side of

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<sup>76</sup>Ibid., p. 217.

<sup>77</sup>Sumner, "Speculative Legislation," The Challenge of Facts, . . . , p. 219. See also, Sumner, "Protectionism, The -ism Which Teaches that Waste Makes Wealth," The Forgotten Man, . . . , p. 25, and Starr, William Graham Sumner, p. 16.

<sup>78</sup>Sumner, "Speculative Legislation," The Challenge of Facts, . . . , p. 219.

<sup>79</sup>Spencer, Social Statics, pp. 339-347.

the economic account is never examined, (2) the legislative enactments forbid desirable economic activities which the interested parties then attempt to attain through other less conventional economic maneuvers, and (3) governmental interference with the price mechanism induces exactly the opposite private action from that which is intended.

As an example to demonstrate the above theory, to fix a price below an equilibrium rate in order to ease a shortage actually encourages a more serious shortage, since low prices lead to an increase in quantity demanded and a decrease in quantity supplied. In a more specific example, usury laws and the Interstate Commerce Act both tend to produce the opposite results from those intended. Usury laws, instead of helping the poor, middle class consumer and saver--as intended--have actually hurt him, since usury laws force banks to overissue, and the overissue of notes frequently leads to panic and bank default.<sup>80</sup> The Interstate Commerce Act, instead of promoting competition and efficiency has, through its "short-haul" clause, helped promote inefficiencies and diseconomies of scale, while at the same time giving unneeded impetus to railroad merger and pooling.<sup>81</sup> Similar illustrations are also

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<sup>80</sup>William Graham Sumner, A History of Banking in the United States (New York: The Journal of Commerce and Commercial Bulletin, 1896), p. 182.

<sup>81</sup>Sumner, "Speculative Legislation," The Challenge of Facts. . . , pp. 217-218.

applicable in the case of tariffs.<sup>82</sup>

Thus, speculative legislation is politically undesirable because it tends to nullify any meaningful concept of civil liberty, and economically undesirable because it leads to rigidities, inefficiencies, and a misallocation of resources that waste capital and frequently produce perverse results. Sumner repeats again and again that only work and self-denial can create wealth and welfare: all that speculative legislation does is simply "get in the way" and make things harder.<sup>83</sup> He concludes in frustration that "the greatest reforms which could now be accomplished would consist in undoing the work of statesmen in the past."<sup>84</sup>

#### Monopoly and Accumulations of Capital

It is crucial to note that Sumner makes a careful distinction between wealth obtained by plutocratic privilege, and the legitimate accumulation of wealth or capital on a free market. Plutocracy necessarily involved arbitrary economic advantages, and a plutocrat is "a capitalist who uses the power of capital for political, rather than industrial purposes, corrupting the political

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<sup>82</sup>Sumner, "Protectionism, The -Isim Which Teaches that Waste Makes Wealth," The Forgotten Man, . . ., p. 23.

<sup>83</sup>Sumner, Collected Essays, . . ., p. 92.

<sup>84</sup>Sumner, What Social Classes, . . ., pp. 102-103.

system while obtaining monopolies, franchises, and other special privileges."<sup>85</sup> With these advantages he can exploit his competitors--if he has any--and the unsuspecting consumer. This misuse of political power to rig economic markets is a prostitution of the purpose of republican government and antithetical to the concept of civil liberty. Sumner condemns this use of power in no uncertain terms. But he lauds the operations of the legitimate capitalist or businessman who, through intelligence and self-denial, obtains his wealth by the production and distribution of products on a free (unhampered) market. This increase in wealth and capital is an increase in economic power, or an increase in man's ability to extract goods from nature.<sup>86</sup> (See Chapter Three.) Since Sumner maintains that "at present the power of capital is social and industrial and only in a small degree political," and since capital and aggregations of wealth have not--as a general rule--been "put to mischievous use," he concludes that the "power" of most corporations, trusts, and industrialists is mostly economic, non-plutocratic and, therefore, not reproachable.<sup>87</sup> In fact, it is these very ag-

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<sup>85</sup> Stow Persons, ed. Social Darwinism: Selected Essays of William Graham Sumner (New Jersey: Prentice Hall, Inc., 1963), p. 6.

<sup>86</sup> Sumner, "Economics and Politics," The William Graham Sumner Papers, p. I.

<sup>87</sup> Maurice R. Davis, ed. Sumner Today: Selected Essays

gregations of wealth and capital that make modern industrial civilization possible. The only capitalists who are condemnable are those who use legitimately earned income to lobby for special favors and privileges, or who live off the earnings and spoils of tariffs and subsidies.

Some illustrations may be helpful here. It has previously been mentioned that Sumner does not frown on aggregations of capital, nor does he frown on the institutional mechanisms within which these aggregations frequently develop--the joint stock company or the trust. Both are the cause and effect of economic development, and both are "nothing but. . .new devices in the application of capital to industry and commerce."<sup>88</sup> In the vast majority of cases, neither has anything to do with plutocracy.<sup>89</sup>

On the other hand, one of the greatest plutocratic devices is the state-granted "artificial monopoly," or the extension of special privileges to specific individuals or firms, and the entry of regulation into specific economic activities. Artificial monopolies necessarily forbid competition by so favoring the designated firms that effective outside competition becomes impossible.

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of William Graham Sumner (New Haven: Yale University Press, 1940), p. 109. See also, Ibid., p. 104, and Sumner, "The Forgotten Man," The Forgotten Man, . . ., p. 269.

<sup>88</sup>Sumner, "Some Words on Financial Crises," The William Graham Sumner Papers, pp. 3-4.

<sup>89</sup>Sumner, "The Forgotten Man," The Forgotten Man, . . ., pp. 268-269.

Sumner holds that America has more of this kind of monopoly than any other country in the world, and is not a "free country because of it."<sup>90</sup> Again, this is a plutocratic situation, and completely condemnable from either a political or economic point of view.

A possible third area of confusion is the issue of "natural monopoly." As Sumner demonstrates, natural monopoly is the "normal state of things" until men advance capital and competition far enough to "break it down."

It is easily perceived, upon a view of facts, that monopoly is in the order of nature, and that it predominates over all the most fundamental relations of man to the earth on which he lives. It is not a product of civilization, or a result of the capitalistic organization, or an invention of the bourgeoisie, as is so often asserted. If then any one desires to declaim against it, he must understand that he is at war, not with human institutions, but with facts in the order of the universe.<sup>91</sup>

Sumner maintains that sometimes, because of the very nature of the thing--its existence in time and space--or because of the very special nature of the economic context, a natural monopoly develops (or more accurately, prevails) within which competition is either impossible or unwarranted. He cites such examples as managerial talent,<sup>92</sup> gas, water, electricity, books, most transportation

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<sup>90</sup> Ibid., p. 282.

<sup>91</sup> Sumner, "Another Chapter on Monopoly," Earth-Hunger, p. 249.

<sup>92</sup> Sumner, "Is Liberty A Lost Blessing?," Earth-Hunger, p. 134.

facilities and, especially railroads; these are monopolies of sorts which grow out of the nature of the context within which the activity is carried on, and not from the direct or indirect intentions of man.

The transmission of intelligence by telegraph is a natural monopoly. . . The physical difficulties of reduplicating the apparatus within the limits of space where it must be used produce this necessity. The organization for this purpose which has the most widely extended apparatus, which can reach the greatest number of points, and which is ready to take any business at any time and perform it with the least doubt or delay, will always have an advantage in competition for business, if there is competition, which will enable it to advance to a monopoly. The reasons lie in the natural conditions of the business and there is, as yet, no means known for escaping it.<sup>93</sup>

Thus, there are "monopolies" where the "physical conditions of the space within which the apparatus must lie make it impossible to bring competition to bear."<sup>94</sup> They are founded in "the order of nature," and "no one is to blame for them."<sup>95</sup> Again, this type of monopoly has nothing to do with plutocracy.

The question, of course, arises as to what Sumner thinks should be done about monopoly. Plutocratic monopoly--artificial monopoly--can and should be stopped by separating economic and political power, that is, by deny-

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<sup>93</sup> Sumner, "A Group of Natural Monopolies," Earth-Hunger, . . ., p. 245.

<sup>94</sup> Ibid., pp. 245-246.

<sup>95</sup> Ibid., p. 248.



ing to economic interests the advantages of speculative legislation.<sup>96</sup> Strict enforcement of the principles of republican government would neither help nor hinder the actions of private enterprise. Sumner fought throughout his entire intellectual career for this policy, and against plutocratic tariffs, arbitrary privileges, and special favors granted to some business groups vis-a-vis others.<sup>97</sup> To eliminate these devices would be enough to restore competition in those areas, or at least to make competition possible again.

Natural monopoly is a particular problem, and one without easy solution. Sumner admits that a case for intelligent regulation can be made, but declines to endorse any specific solution since he maintains that no rational legislative plan has as yet been offered.<sup>98</sup> He believes that a sensible plan of action is to "push on to the next stage [of industrialization] in which the progress of

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<sup>96</sup>"Plutocracy, as we have seen, consists in the political power of capital. If capital were excluded from all interest in state action, and thrown upon the laws of the market, there would remain only that power of capital which is rooted in the industrial and social order, which nothing can set aside or overcome. If there were no longer any legislative monopolies nor any legislative guarantee or natural monopolies, the only monopolies which would remain would be such as no one can abolish." Sumner, "Separation of State and Market," Earth Hunger..., pp. 310-311.

<sup>97</sup>Marice R. Davie, William Graham Sumner (New York: Thomas Y. Crowell Company, 1963), pp. 29-34.

<sup>98</sup>Sumner, "The State and Monopoly," Earth-Hunger..., p. 276.

invention or the modifications of process are likely to bring in competition in a manner disastrous to the monopolies. . ."<sup>99</sup> It is wrong to legislate and "interfere with the development of some gigantic interest, under the annoyance of some temporary phase of the problem. . ."; competition and evolutionary change will in time--as they have done in the past--destroy the monopoly positions of certain activities.<sup>100</sup> Trying to control or regulate the trusts or pools themselves "will arrest the industrial forces in their development on which our social well-being depends," and delay the advances in industry, technology and invention which, ultimately, mean the breakdown of the trusts and pools themselves.<sup>101</sup> Sumner is convinced that society cannot keep the advantages and comforts of industrial civilization, while attacking--through legislation--"the social institutions by which the creation of capital is secured." He would rather see society pay the price of temporary natural monopoly, than lose the comforts of a civilization wrought by large scale industry.<sup>102</sup> Thus, since some monopoly is "natural," not man-made, and since man can do little in a constructive manner through

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<sup>99</sup>Sumner, "Another Chapter on Monopoly," Earth-Hunger, . . ., p. 253.

<sup>100</sup>Sumner, "The State and Monopoly," Earth-Hunger, . . ., p. 276.

<sup>101</sup>Sumner, "Another Chapter on Monopoly," Earth-Hunger, . . ., p. 253.

<sup>102</sup>Ibid., p. 252.

legislation about it, it is best to leave its solution to evolutionary economic forces.

Hence, as can be seen in this section, Sumner seeks to distinguish carefully between economic and political power, between wealth created and applied on a free market, and that exploited by privilege on a rigged market. To lump these two distinct concepts together--as if all wealth and capital accumulation were plutocratic, and therefore politically dangerous--is to blur Sumner's political economy beyond recognition and intelligibility. Unfortunately for an understanding of his political economy, most of his critics have managed to blur this distinction.<sup>103</sup>

#### The Forgotten Man

Besides opposing speculative legislation for political and economic reasons, Sumner also opposes it because it is the necessary tendency for all speculative legislation to "crush out the middle class."<sup>104</sup> Sumner holds that the real burden of all social legislation and plutocratic schemes necessarily falls on the great middle class

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<sup>103</sup> See, for example, Charles Hunt Page, Class and American Sociology: From Ward to Ross (New York: Dial Press, 1940), pp. 89-94. Or see, L. L. Bernard, Jessie Bernard, Origins of American Sociology (New York: Thomas Y. Crowell Company, 1943), pp. 504-506.

<sup>104</sup> Sumner, "What Makes the Rich Richer and the Poor Poorer," The Challenge of Facts, . . . , p. 70.

of "forgotten men," those hard working, average citizens, who are ultimately forced to pay--through taxes, higher prices, or wasted capital--for all so-called social welfare measures.<sup>105</sup> He uses economic history, and especially the history of the Roman Empire, to demonstrate this. In the Roman Empire, military duty, violence, insecurity of property, forced almsgiving, poor laws, and especially taxation "pressed hardest on those who, under the conditions of their position in life and the demands which were made upon them were trying to save capital and improve their circumstance. The heavier it became, the faster it crushed out this class of persons. . . ."<sup>106</sup> The modern economic counterpart of this phenomenon is, he maintains, "the effect of taxation in this country, to drive out the small men and to throw special lines of industry into the hands of a few large capitalists."<sup>107</sup>

Sumner is convinced that the state must both fulfill its legitimate functions--that is, to preserve and protect order, justice and private property--and avoid at the same time the plutocratic devices of speculative legislation, if it is to prevent the destruction of the middle

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<sup>105</sup>Sumner, "The Forgotten Man," The Forgotten Man, . . ., pp. 491-492.

<sup>106</sup>Sumner, "What Makes the Rich Richer," The Challenge of Facts, . . ., p. 74. (The tense in this quote has been changed to agree with the tense of the paper.)

<sup>107</sup>Ibid., p. 74.

class.

If the state does not do its work properly, such classes, representing the wide distribution of comfort and well-being, will die out. If the state itself gives license to robbery and spoliation, or enforces almsgiving, it is working to destroy the whole middle class, and to divide society into two great classes, the rich who are growing richer, not by industry but by spoliation, and the poor who are growing poorer, not by industrial weakness but by oppression.<sup>108</sup>

To understand why Sumner came to these conclusions and why these views reinforce his adoption of a political economy of laissez-faire, it is necessary to examine his conception of the "forgotten man."

#### Forgotten Man Defined

For Sumner, the "forgotten man" is the "simple, honest laborer, ready to earn his living by productive work"; he is independent, self-supporting, and asks no favors.<sup>109</sup> He can be either a small businessman or a common laborer; the important point is that he is not a "burden," "an object of sentiment," or an "object of charitable aid and protection." He is simply a clean, responsible, hard working middle class person who minds his own business, and expects other people to mind theirs. Sumner maintains that because he is "quiet" and makes no "clamor," but goes on

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<sup>108</sup>Ibid., p. 75.

<sup>109</sup>For a general discussion of the "forgotten man," see, Sumner, "The Forgotten Man," The Forgotten Man..., pp. 465-495.

about his work and responsibilities in his own way, he is forgotten. Because he demands nothing, asks for no help, arouses no sentiment either from economists or statesmen, is the object of no crusades or causes, and attracts no controversy, he is disregarded and forgotten. Consequently, all the burdens of social and speculative legislation are conveniently laid on him or her, for the forgotten man "is not seldom a woman,"<sup>110</sup>

The burdens are levied on the forgotten man by the "social doctors" or legislators who decide what the forgotten man shall do for the lazy, the shiftless and the irresponsible. It is important to note here that the intended beneficiaries of social legislation are not the paupers or the physically incapacitated--Sumner maintains that these are "an inevitable charge on society"--but are instead the "shiftless. . .the imprudent. . .the negligent. . .the impractical. . .the inefficient. . .the idle . . .the intemperate. . .the extravagant and the vicious."<sup>111</sup> Sumner's forgotten man becomes the scape-goat and the burden-bearer of all speculative proposals since he makes up the great bulk of the population which will inevitably be called upon to shoulder the cost of these proposals.

Sumner's opposition to speculative legislation on economic grounds has already been examined. The schemes

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<sup>110</sup>Ibid., pp. 491-492.

<sup>111</sup>Ibid., p. 475.

waste precious capital, or "force," which if given "to support a shiftless and good-for-nothing person is so much diverted from some other employment and that means from somebody else. . . . If you give a loaf of bread to a pauper, you cannot give the same loaf to a laborer."<sup>112</sup> Capital or consumers' goods sent one way cannot be sent another. The real victim of wasted capital is, again, the "industrious laborer" who never acquires the benefit of what that capital would have reproduced if it had been directly invested, or allowed to reproduce itself in a savings bank.<sup>113</sup>

#### Morality and Legislation

In the second instance, the speculative legislation which requires the forgotten man to "bear the cost and schemes for making everybody happy" is "immoral to the very last degree, and opposed to the simplest common sense."<sup>114</sup> Welfare legislation clearly offends Sumner's conception of justice and proper ethical behavior.<sup>115</sup> He holds that it is wrong to tell a man who has already taken

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<sup>112</sup>Ibid., pp. 475-476.

<sup>113</sup>Sumner, "On the Case of a Certain Man Who is Never Thought Of," War. . ., p. 248. See also, Davie, Sumner Today, p. 12.

<sup>114</sup>Sumner, "The Forgotten Man," The Forgotten Man. . ., p. 493. And, Sumner, "The Shifting of Responsibility," The Challenge of Facts. . ., p. 198.

<sup>115</sup>Ibid., pp. 193-198.

care of himself and his family, that now "it is his duty to go and take care of some of his negligent neighbors or. . .to pay an inspector to go. . ."

It is all wrong to preach to the Forgotten Man that it is his duty to go and remedy other people's neglect. It is not his duty. It is a harsh and unjust burden which is laid upon him, and it is only the more unjust because no one thinks of him when laying the burden so that it falls on him.<sup>116</sup>

Sumner holds that it is unjust and morally wrong to shift personal responsibilities from those who have been negligent in their duties to those forgotten men who have not.<sup>117</sup>

It is unjust and morally wrong to require the men who have earned wealth on a free market to support those who have not. To require those with ability to produce in accordance with the needs of others, is to designate the capable as slaves and the incapable as sloths --and masters.<sup>118</sup>

And, to reverse the "distribution of rewards and punishments between those who have done their duty, and those who have not" is a vicious, cruel "scheme for making injustice prevail in human society."<sup>119</sup> Sumner thus opposes

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<sup>116</sup>Sumner, "The Case of the Forgotten Man Further Considered," War. . ., pp. 259-260.

<sup>117</sup>Sumner, "First Steps Toward a Millennium," Earth-Hunger. . ., pp. 97-98.

<sup>118</sup>William Graham Sumner, "Syllabus of Six Lectures," The Sumner-Keller Collection, Box 53. Lecture 4, Historical Manuscripts Department, Yale University Library), p. 7.

<sup>119</sup>Sumner, "The Case of the Forgotten Man Further Considered," War. . . p. 258.



all such legislation on the grounds that while its intentions may be noble, its means, examples, and consequences are clearly immoral. Social legislation is poor economics and worse morality since both aspects work undeserved, unwarranted hardships on the forgotten man, and, ultimately, tend to crush the middle class underfoot.

#### Summation

In a final summation of Sumner's position with regard to political economy, it can be stated that he supports laissez-faire and condemns plutocracy because: (1) politically, plutocracy tends to destroy any meaningful conception of civil liberty. (2) Economically, plutocracy invites rigidities, inefficiencies, a misallocation of resources, and a general waste of productive capital which, in combination, tend to lower product and slow economic growth and development. (3) Ethically, plutocracy is immoral because it shifts the personal responsibility of sustaining life from one person to another, and makes the "innocent" pay for the neglected duties of the "guilty," destroying the middle class in the process. This is the heart of his political economy and the major reason for his philosophy of non-interference.

## CHAPTER FIVE

### LABOR: WAGES, UNIONS, AND STRIKES

The next three chapters will be specific applications of the principles of political economy developed earlier in this study. Their purpose is to test the relevancy, consistency, and applicability of Sumner's ideas to some real issues in the economic world. The "labor question" will be examined first.

For Sumner, the "labor question" centers around three interrelated issues: (1) the determination of wages and wage rates; (2) the role and legitimate function of unions; and (3) the purpose and consequence of economic strikes. The following section will review Sumner's examination of the determination of the rate of wages.

#### Wages

He holds that a wage is a payment per unit of time made by an employer to an employee, in exchange for productive services. A wages system is an aggregation of such relationships, and exists "only where the ratio of population to land is such that a class is differentiated which, having no capital or land, is dependent day by day for support on a contract relation with those who have

capital."<sup>1</sup> Thus, a wages system is not the only possible technique for distributing labor payments--other systems have existed throughout economic history--but it is a special type, and arises only in particular circumstances.

Wages are a cost of production to the employer, and arise at the beginning of what Sumner refers to as a "period of production."<sup>2</sup> In a "period of production," labor and fixed capital combine their energies to work up raw materials into marketable commodities. The payments to these factors of production come out of capital accumulated from previous "periods of production." When the product is finally completed, priced, and sold--in accordance with the laws of supply and demand--the original capital consumed in production is replenished, and any profits which arise are returned to the capitalist. Now everything is ready for another production period.

Sumner holds that the wages paid the employee or, conversely, the cost of the labor factor to the employer, is a function of the supply and demand for labor.

The rate of wages is determined, like every other case of value, by supply and demand. The total capital will be divided between wages, raw materials, and capital, by supply and demand.<sup>3</sup>

Supply and demand "are the relations which bind men to-

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<sup>1</sup>Sumner, Collected Essays, . . ., p. 253.

<sup>2</sup>Ibid., pp. 253-254.

<sup>3</sup>Ibid., p. 258.

gether into a human society for co-operation and high organization in a joint effort to win the supplies of life."<sup>4</sup> They are the "ultimate force or fact" which faces the economist, and they can be represented by "two curves cutting each other; that is to say, by two simultaneous equations between two variables."<sup>5</sup> If markets are free, supply and demand tend to clear markets.

Thus, the determination of wage rates is solely a function of the supply and demand for labor in the labor market. In a given period of production, wages are not determined or affected by the price of the product or the level of profits. These factors arise and are important only after costs have been incurred and, therefore, cannot effect costs in any direct way. For Sumner, determining the rate of wages is analogous to determining the weight of a man; although a man's weight in the future may depend on a number of factors and may, of course, change, his weight now is determined solely by "gravity acting on the mass of his body." The same is true, analogously, with wage rates.

It is asked, what determines the weight of a man? The answer is, gravity acting on the mass of his body. No, M. Leroy-Beaulieu would say, that is a formula of inflexible dogma of the principle phycists. The weight of a man is determined by the fact that, if he has a

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<sup>4</sup>Ibid., p. 249.

<sup>5</sup>Ibid.

good constitution, good health, good diet, obeys hygienic rules, does not work too hard, loses no limb by accident, etc. . . , his weight may increase from one time to another. Such errors would not be possible in any science but political economy, but recent literature is largely made up of just such confused thinking and reasoning. The rate of wages is the rate at which services are exchanged for means of subsistence under free contract and competition. It is therefore determined by supply and demand, like price, rate of interest, rate of foreign exchange, and all other cases of value.<sup>6</sup>

Since demand and supply are so important, it is necessary to get some idea of what Sumner has in mind here. In the first place, he holds that men have not always been in economic demand; in fact, it is a "most extraordinary state of things on earth--a revolution--when men are in demand," when some men will actually pay for the presence of other men.<sup>7</sup>

Much more is it a remarkable idea that men in general should ever be in demand. . . We are not needed here at all; the world existed no one knows how long without any men on it. They were never missed by the other forms of nature. . . There is no need for man and no demand for man, in nature; it is complete without him.<sup>8</sup> (*italics added.*)

The factor which forces the "revolution," and sustains the economic demand for men is the existence of capital.

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<sup>6</sup>Ibid., pp. 260-261.

<sup>7</sup>Sumner, "The Demand for Men," The Challenge of Facts. . . , p. 113.

<sup>8</sup>Ibid., pp. 112-113.

An economic demand is one which is backed up by an equivalent offered in reward for a satisfaction of it, and the demand for men is subject to the same interpretation, or it is a fiction. The payment which must be brought into the labor market as an equivalent to support the demand for men is means of subsistence; if men are wanted they must be subsisted, and they must be subsisted in such rich measure that they can sustain not only themselves, but also wives and little ones to maintain the increase...<sup>9</sup>

The means of subsistence are capital-products which men who are already here have made and are ready to share with new-comers, as a means to persuade others to come. This is the demand for men. . . The case which is new, anomalous, astounding, is the one in which the men who are already here not only do not dread new-comers or treat them with hostility, but even pay them, out of the products of their own previous labor, to come. That is a true demand for men. When it arises, men rise in market value. . .<sup>10</sup>

It is therefore, the demand for men, consisting in the capital and tools on hand, ready for their support and use, which maintains a number of men on a level where they can struggle to get all the material welfare which the labor market really holds for them. . .<sup>11</sup>

Thus, capital and capital goods sustain the demand for men by providing the "means of subsistence" by which the demand for labor is effectuated. The greater the amount of capital and capital goods, the greater the demand for men and the higher "the average rate of comfort for all." Conversely, if "men are too numerous for the means of

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<sup>9</sup>Ibid., pp. 114-115.

<sup>10</sup>Ibid., p. 115.

<sup>11</sup>Sumner, "What the Social Question Is," The Challenge of Facts, . . ., p. 132.

subsistence, the struggle for existence is fierce."<sup>12</sup>  
If a man finds himself over-abundant or unskilled relative to other men, he can expect to "win but meager subsistence from the stock of food, clothing, etc. . . in the market."<sup>13</sup>

Hence, although wages are determined by supply and demand, the important point to note is that supply and demand themselves are influenced by a variety of factors. Sumner is quite aware, for instance, that the level of immigration, and the degree of skill a productive worker acquires are important elements influencing the position of supply and demand curves, and, thus, of wage rates. Wages are high in the United States because employers with huge accumulations of capital demand skilled workers in short supply. Surprisingly enough, however, Sumner believes that immigration raises wages, since this relatively cost-free labor produces more "means of subsistence" than it subtracts from the social product, thus increasing the demand for men.<sup>14</sup>

Sumner maintains that wages are paid out of capital and not out of product--that is, not out of the revenues derived from the sale of the product. The wage is set

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<sup>12</sup>Sumner, "The Significance of the Demand for Men," The Challenge of Facts, . . ., pp. 120-121.

<sup>13</sup>Ibid., p. 121.

<sup>14</sup>Sumner, "The Demand for Men," The Challenge of Facts, . . ., p. 116.

by the supply and demand for labor at the start of a period of production; it is at this point that the contract is made and the cost is incurred.

The notion that wages ever can be paid out of product is the most ridiculous notion which has ever been introduced into political economy. It would mean that a man who was tilling the ground in June could eat the crop he expected to have in September, or that a tailor could be wearing the coat which he was making. Men could then eat their intentions, wear their hopes, and be warmed by their promises.<sup>15</sup>

Since wage rates are unrelated to product, they are, correspondingly, unrelated to product prices. Sumner holds that there is no direct relationship between the cost of labor and the price of the product, nor can a rise in the cost of labor force up the price of products.

A person who comes into the market, therefore, with something to sell, cannot raise the price of it because he wants to do so, or because his "cost of production" has been raised. He has already pushed the market to the utmost, and raised the price as high as supply and demand would allow, so as to win as large profits as he could. How then can he raise it further, just because his own circumstances make it desirable for him so to do? If the market stands so that he can raise his price, he will do it, whether his cost of production has increased or not.<sup>16</sup>

If the employer could simply add any increase of wages to his price, and so recoup himself at the expense of the consumer, no employer would hold out long against a strike. Why should he?

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<sup>15</sup>Sumner, Collected Essays, . . . , p. 255.

<sup>16</sup>Sumner, "Strikes and the Industrial Organization," The Forgotten Man, . . . , p. 251.



Why should he undertake loss, worry, and war, for the sake of the consumers behind him?<sup>17</sup>

If an employer should say to his men, "My business is not prosperous like that of my neighbors. I want you to work for me for \$2 a day, altho the market rate which you could get is \$2.25"--he would not deserve a respectful reply. Neither is there any sense at all in the demand of the men, if they say to the employer, "Your business is exceptionally prosperous, and we want you to give us \$2.25, altho the market rate which we could get elsewhere is \$2."<sup>18</sup>

If there is no direct relationship between product prices and wages, there is also no direct relationship between profits which come out of product, and wages which come out of capital. There is, correspondingly, no antagonism between profits and wages.

It is clear that wages and profits are not parts of the same whole. Wages were in capital at the beginning of the period of production; profits are in the product at its close. We cannot establish any equation between the wages and the total capital, or the profits and the total product, or the total capital and the total product. How then can we establish an equation between wages and profits so as to determine the effect on one of variations of the other?<sup>19</sup>

The facts are that wages are determined by demand and supply in the labor market. Product prices (and, accordingly, profits) are determined by the demand and supply for commodities in the product market. The markets are distinct and separate, and one set of forces has no direct relation-

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<sup>17</sup> Ibid., pp. 249-250.

<sup>18</sup> Sumner, Collected Essays. . ., p. 255.

<sup>19</sup> Ibid., p. 254.

ship with the other.

Although Sumner maintains that there is no direct relationship between wages and profits, he does, of course, admit an indirect relationship in the long run. It must be remembered that he is trying to explain the determination of a wage rate; his theory is almost completely short run. He admits, for instance, that in the long run (after more than one period of production) product and profits may influence wages. If capital sustains the demand for men, anything which expands capital will, eventually, affect wages.

If the product and profit of the last period were large, the accumulation of capital will be large--that is, the stock of supplies for laborers in the next period will be great; but it is not until the next period, and after an increase in capital, that any effect on wages can be produced.<sup>20</sup>

Thus, all sorts of factors may influence wages or the level of wages over time, although, for Sumner, only the supply and demand for labor determine the wage rate at any given instant.

Sumner places great faith in the laws of supply and demand, although he acknowledges that the laws do not necessarily operate by themselves. In fact, the great economic laws of value assume that suppliers and demanders, and all economic agents, will seek out--to the best of their ability and power--their own self-interest. As Sum-

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<sup>20</sup> Ibid.

ner says:

Supply and demand does not mean that the social forces will operate of themselves; the law, as laid down, assumes that every party will struggle to the utmost for its interests--if it does not do so, it will lose its interests. Buyers and sellers, borrowers and lenders, landlords and tenants, employers and employees, and all other parties to contracts, must be expected to develop their interests fully in the competition and struggle of life.<sup>21</sup>

The two most important institutional devices in the area of wage determination for enforcing the laws of supply and demand, and extracting from the market the maximum amount that it can supply, are labor unions and strikes. The following sections will examine the role that Sumner envisions for these important economic tools.

### Unions and Strikes

Sumner considers labor unions legitimate and legal units for the promotion of worker economic welfare.<sup>22</sup> He states in clear language that they can be used to attempt to raise wages, spread information, and keep worker morale at high levels. They can and should also be used to regulate numerous matters of importance such as health and safety conditions in the factory and the hours and age requirements for women and children workers.<sup>23</sup> Al-

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<sup>21</sup>Sumner, "Strikes and the Industrial Organization," The Forgotten Man, . . ., p. 252.

<sup>22</sup>Sumner, "What Social Classes, . . .," pp. 78-85.

<sup>23</sup>Ibid., pp. 82-83.

though trade unions are not "natural" in the United States, and will find the American worker difficult to organize for a number of reasons, the unions are surely free to try, and to press all non-violent demands they wish, even by threat of strike if necessary.<sup>24</sup>

Trades-unions, then, are right and useful, and it may be that they are necessary. They may do much by way of true economic means to raise wages. They are useful to spread information, to maintain esprit de corps, to elevate the public opinion of the class. They have been greatly abused in the past. . .<sup>25</sup>

Trades-unions need development, correction, and perfection. They ought, however, to get this from the men themselves. . .Especially trades-unions ought to be perfected so as to undertake a great range of improvement duties for which we now rely on government inspection, which never gives what we need. The safety of workmen from machinery, the ventilation and sanitary arrangements required by factories, the special precautions of certain processes, the hours of labor of women and children, the schooling of children, the limits of age for employed children, Sunday work, hours of labor--these and other like matters ought to be controlled by the men themselves through their organizations. The laborers about whom we are talking are free men in a free state. If they want to be protected they must protect themselves.<sup>26</sup>

The most powerful union device for determining labor's fair share of national income is the strike, or the threat of strike. Strikes--non-violent of course--are legitimate tools of industrial combat, and Sumner makes

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<sup>24</sup>Ibid., p. 80.

<sup>25</sup>Ibid., p. 81.

<sup>26</sup>Ibid., pp. 82-83.

this point quite explicitly. Strikes are costly and involve heavy responsibility, but, if rationally begun and intelligently conducted, they do indeed "test the market."<sup>27</sup> Of course, their effectiveness is always in doubt, and will vary from industry to industry depending upon a number of considerations.<sup>28</sup>

Nevertheless, Sumner considers most strikes to be foolish because they are incapable of achieving their intended objectives. He is convinced, for instance, that no strike in Britain or in the United States in the past forty years (1844-1884) had been worth the expense, and that most strikes, especially for higher wages, could never obtain intended goals. They do not achieve their intended results because strikes waste capital and disrupt production; in Sumner's system, wages can never rise while production is decreasing and precious capital is being wasted.<sup>29</sup> A strike is also difficult because it attempts "to move the whole industrial organization, in which all the parts are inter-dependent and inter-supporting. It is not, indeed, impossible to do this, although it is very difficult."<sup>30</sup> Thus he considers most strikes

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<sup>27</sup>Sumner, "Strikes and the Industrial Organization," The Forgotten Man, . . ., p. 252.

<sup>28</sup>Sumner, "The Philosophy of Strikes," The Forgotten Man, . . ., p. 244.

<sup>29</sup>Sumner, What Social Classes, . . ., p. 79-80.

<sup>30</sup>Sumner, "Strikes and the Industrial Organization," The Forgotten Man, . . ., p. 251.

ill-advised. They are, however, perfectly legitimate labor tactics, and may be used more effectively for remedying specific grievances, such as the improvement of working conditions.

Sumner considers "industrial war" normal and natural, and ultimately the only way of "solving questions which can never be solved in any other way."<sup>31</sup> In fact, strikes and industrial disputes are positive proof that the laboring classes are "well off and gaining," since men on the verge of starvation do not strike for higher wages or anything else.<sup>32</sup> He would suggest nothing to curb labor's right to strike nor, on the other hand, would he propose anything to force management to concede to trade union demands. To force arbitration or to impose coercive contracts--a relationship "which might serve as a definition of slavery"--is completely antipathetic to his notion of civil liberty.<sup>33</sup> Sumner recognizes the monopoly aspects of unions--their ability to restrict the competition of laborers with each other--and compares their tactics to those of the corporate trusts.<sup>34</sup> But, as with industry,

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<sup>31</sup>Sumner, "Do We Want Industrial Peace?," War..., p. 236

<sup>32</sup>Sumner, "What Emancipates," The Challenge of Facts..., p. 139.

<sup>33</sup>Sumner, "Do We Want Industrial Peace?," War..., pp. 233-234.

<sup>34</sup>Sumner, "Trusts and Trade Unions," The Forgotten Man..., p. 262.

he proposes no significant legislation either to encourage or discourage their formation and operations. As is the case with industrial trusts, unions are "a product of the same age and the same forces."<sup>35</sup> They are natural and inevitable economic organizations which, unfortunately, have suffered great political and judicial abuse throughout most of their history. Generally they should be let alone to seek their own self-interest, or the united self-interest of their members; the only stipulation is that efforts be peaceful.

As an example of one specific labor problem, Sumner warns industrial labor to be ready and able to adapt itself to a changing technology, and not to fear the effects of automation.<sup>36</sup> He rejects the notion that "the effect of the extension of capital, especially in the form of machinery, is to displace human labor."

That opinion is superficial and erroneous; the more complex the tools or machines, the more dependent the owner is on hired help to work them for him. The railroads do not employ fewer men than the canals and stage coaches which they displaced; the sewing machine does not give work to fewer women than the old hand sewing; a new loom calls for more help at another point or the number of new looms is multiplied until they need as much labor as the old ones. All these changes raise the social organization to higher power.<sup>37</sup>

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<sup>35</sup> Ibid., p. 171.

<sup>36</sup> Sumner, "Do We Want Industrial Peace?," War, . . . , p. 239. See also, Sumner, "Who Wins by Progress?," The Challenge of Facts, . . . , pp. 170-172.

<sup>37</sup> Ibid., p. 171.

For Sumner, the increased industrial power provided by machines means more "means of subsistence" and, consequently, increases in the demand for labor services; the ultimate effect is to raise labor's wage, and confer most of the benefits of an advancing industrial civilization on the great middle class.<sup>38</sup>

In brief summation, Sumner feels that the wage rate is an economic phenomenon, determined by the supply and demand for labor at some given instant. Since no single employer or employee can affect supply and demand, man is bound at that moment by the results of the law and cannot get around it. In the short run, wages are paid out of capital and not out of product. Over time, capital and product increase, and increase the demand for men and, correspondingly, raise wages. Thus he recognizes that the variables in the "two simultaneous equations" can change--that population can increase or decrease, and the demand for men can change due to a change in the arts (technology), and, of course, cause wages to change. But the new wage rate is still determined by demand and supply, this time by new supply and demand curves.

Unions are legal organizations (all voluntary, non-violent organizations are legal), and strikes are legitimate tools of industrial warfare. Strikes are, however, to be undertaken rationally and responsibly. This is

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<sup>38</sup>Ibid., pp. 170-172.



especially true of strikes for higher wages which, for economic reasons, usually fail to achieve their intended results. In any case, neither unions nor strikes warrant any legislative meddling. Again, laissez-faire is the best policy, since any departure from it invites economic inefficiencies and a curtailment of civil liberty for the parties involved. To outlaw voluntary associations by legislation is wrong because it flouts the civil liberties of the individual members. To legislate that employers must bargain with or accept the terms demanded by the unions flouts the civil liberties of the employers. If the opportunity exists for these associations to form, the conditions of civil liberty are fulfilled.<sup>39</sup> From then on the outcome depends on the relative power of the parties.

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<sup>39</sup>The conditions of civil liberty are fulfilled because Sumner defines liberty as "chances." See, Sumner, "Liberty and Opportunity," Earth-Hunger, . . ., p. 180.

## CHAPTER SIX

### TARIFFS

No topic in political economy aroused William Graham Sumner's anger, wit, or moral indignation any more violently than the "protective tax" or tariff. He maintained a running intellectual battle with the tariff, prodding it from the classroom, the book, the speech and from the numerous publications to which he contributed. As Hofstadter has put it, "free trade to Sumner was not an issue to be debated, nor a reform movement to be supported; it was an intellectual axiom."<sup>1</sup> The tariff conveniently embodied all that was wrong with political economy; it was economically, politically and morally disastrous to a free people in an industrial republic.

#### Tariffs and Mercantilism

As background to his argument, Sumner traces the intellectual ancestry of tariffs back to mercantilistic economic thought.<sup>2</sup> The fundamental economic premise of mer-

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<sup>1</sup>Hofstadter, Social Darwinism in American. . . . p. 63.

<sup>2</sup>Sumner, "History of Paper Money--Free Trade," The William Graham Sumner Papers, pp. 4-10.

mercantilism had been that imports were suspect, and that in trade "only one of two parties to an exchange must win."<sup>3</sup> Sumner maintains, however, that both parties to an exchange gain by trade, and that trade is in no sense analogous to war, which assumes that what one party loses the other gains. Economic trade on a free international or national market is of a different nature entirely; in uncoerced trade, both parties are able to barter goods to mutual advantage. Both parties can gain by the exchange since the measuring device is not bullion or gold, but economic welfare and subjective measures of satisfaction. Thus, most mercantilistic arguments for restrictions on trade fall by the wayside. The cheapest and freest trade becomes the most expedient since it maximizes consumer satisfaction. If any intellectual theorem has been proven valid by actual social experiment, Sumner is convinced that it is free trade.<sup>4</sup> Tariffs--and all other interferences with the "natural" channels of trade and commerce--are an ancient remnant of bankrupt mercantilism, and as archaic and as old fashioned and inoperative as navigation acts, poor laws, or guild restrictions on wages and prices.

Sumner, similarly, traces the political philosophy and political consequences of tariffs back to mercantilism. Free trade, it must be remembered, had been only one as-

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<sup>3</sup>Ibid., p. 6.

<sup>4</sup>Ibid., pp. 6-7.

pect of a general liberal movement which had proclaimed as a general rule that the freedom of political and economic man was a birthright, to be put above artificial rank, privilege, or favor. Tariffs, on the other hand, had simply been a mercantilistic tool designed to secure favors and privileges for designated social classes, while at the same time serving as a perfect device to reinforce the anti-liberal, aristocratic and militaristic establishments.<sup>5</sup> Tariffs had been used effectively to sustain anti-liberal regimes and ideologies, and were being used again, in this century, in a new attempt to accomplish similar goals. Thus, from both the political and the economic viewpoints, Sumner holds the tariff to be an ancient, inefficient and anti-liberal device whose intellectual roots are embedded in a disproven and impractical mercantilism.

#### Protective Tariff Defined

But what actually is a "protective tariff" in Sumner's system of ideas? A tariff is really a "tax" on consumers goods, an artificially maintained price which insulates the domestic manufacturer from the rigors of foreign price competition. He conceives a protective duty to be a domestic tax on legislatively favored goods, paid by some citizens to others by force of law and economics.<sup>6</sup>

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<sup>5</sup>Ibid., p. 10.

<sup>6</sup>William Graham Sumner, "Protective Taxes and Wages," Collection of Essays in Social Science, bound together for use of classes in Yale College (New Haven, 1883), p. 14.

If a tax is levied at the port of entry on a foreign commodity which is actually imported, the tax is paid to the treasury and produces revenue. A protective tax is one which is laid to act as a bar to importation, in order to keep a foreign commodity out. It does not act protectively unless it does act as a bar, and is not a tax on imports but an obstruction to imports. It is a wall to enclose the domestic producer and consumer, and to prevent the latter from having access to any other source of supply for his needs, in exchange for his products, than that one which the domestic producer controls. The purpose and plan of the device is to enable the domestic producer to levy on the domestic consumer the taxes which the government has set up as a barrier, but has not collected at the port of entry.<sup>7</sup>

For Sumner, this is political economy's most flagrant example of plutocracy.

#### Purpose of Tariff

What is the purpose of protective tariffs? Sumner was fond of quoting "protectionist" journals, and using their definitions of terms, so that he could refute them on their own ground. The Philadelphia American had defined free trade as "such an adjustment of taxes on imports as will cause no diversion of capital, from any channel into which it would otherwise flow, into any channel opened or favored by the legislator which enacts the customs";<sup>8</sup> "a protective duty, on the other hand, has for

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<sup>7</sup>Sumner, "Protectionism, The -Ism Which Teaches That Waste Makes Wealth," The Forgotten Man, . . ., p. 21.

<sup>8</sup>William Graham Sumner, Protectionism, The -Ism Which Teaches That Waste Makes Wealth (New York: Henry Holt and Company, 1885), p. 16.

its object to effect the diversion of a part of the capital and labor of the people out of the channels in which it would run otherwise, into channels favored or created by law."<sup>9</sup> This definition, which Sumner accepts completely, indicates that the general purpose of protective tariffs is to rearrange legislatively the normal patterns of spending on and, ultimately, production of particular goods. As he notes, the effect of this "rearrangement" is to shift automatically productive resources from "unprotected" enterprises to "protected" ones, with the size of the shift depending upon magnitude of the duty and the total amount of consumer spending on the protected item.

#### The Nature of Tariffs

Sumner has many thoughts about tariffs and the intent and actual consequence of artificially rearranged trade flows. In the first place, most of the difficulty about tariffs and trade stems from the inability of people to recognize the basic similarity between interstate trade within the United States, and international trade, or trade between nations of the world.<sup>10</sup> He maintains that no one suggests that interstate trade is harmful, or that it is necessary to "protect" New York manufacturers from cheap Michigan imports. No one for a minute be-

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<sup>9</sup>Ibid., p. 17.

<sup>10</sup>Ibid., pp. 10-11.

believes that the big industrial states "suck" trade and commerce from the smaller states, or that the rich states are not economically beneficial to the poorer ones. It seems that all these things are quite clear and uncontroversial when related to domestic enterprise. And yet, he continues, when the United States legislature gets around to considering trade between nations, it suddenly reverses its economic principles. America has successfully annexed Texas, so trade with Texas is beneficial and desirable. America has not successfully annexed Mexico and Manitoba, so trade with these foreign states is not beneficial, and probably needs regulating.<sup>11</sup> Sumner holds that this artificial distinction is ridiculous, with no basis in theory or in fact; it is simply another "intellectual leftover" from an economically faulty but spiritually thriving mercantilism. For Sumner--as already explained--uncoerced trade with anyone is beneficial to all parties involved, and any limitations on such trade, either foreign or domestic, is economically unsound.<sup>12</sup>

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<sup>11</sup>Ibid., pp. 72-74. See also, William Graham Sumner, Lectures on the History of Protection in the United States (New York: B. P. Putnam and Sons, 1888), pp. 8-9.

<sup>12</sup>Sumner maintains that most of the fallacious arguments for protection stem from Alexander Hamilton's "Report on Manufacturing." Sumner considers most of the principles of political economy developed in that report to be "erroneous and defective in many fundamental respects." According to Sumner, Hamilton makes incorrect inferences with respect to wages, credit, capital, money, trade and specie flow. See, Sumner, Lectures on the History. . ., p. 25.

As a second point, Sumner holds that protectionists frequently forget, or simply do not completely understand, that a rearrangement of spending and production--induced through a system of protection--is simply an economic transfer of resources, and that any transfer necessarily involves a loss as well as a gain.<sup>13</sup> Thus, the announced net gains or benefits in production described by the protectionists are illusory; what is gained in the protected industries is lost in the unprotected ones. The illusion is maintained by never examining or explaining the loss in spending, resources, and product in the unprotected industries. Given fixed consumer incomes, and scarce economic resources, dollars sent in one direction (into protected industries to pay the higher price on protected goods) cannot be sent in another (into unprotected industries); what is gained on one side of the production ledger is necessarily lost on the other. This is Sumner's previously mentioned "conservation of energy" and he claims that supporters of protection "sin against it at every turn."<sup>14</sup> To prove that a tariff is in the public interest, or makes any economic sense whatever, protectionists will need to show that the rearrangement of trade actually increases net product. But this, he alleges, they have

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<sup>13</sup> Sumner, Protectionism, The -Ism. . . . , p. 20.

<sup>14</sup> Ibid., p. 20.



never shown, nor can they.

In the third place, far from producing a net gain in production occasioned by the duty system, Sumner believes that the rearranged trade patterns actually result in less overall production.<sup>15</sup> The new legislatively-directed trade channels are less efficient than the old ones and waste precious capital, resulting in an actual loss in net product from what would have been produced under free trade conditions. The losses in production stem from the wasted capital which goes to pay for the upkeep of the duty system, and, more importantly, from the wasted capital that goes into the wages, salaries and "profits" of the protected industries which, admittedly, cannot sustain their own existence without protection.

The economic situation, therefore, is something like this: protected industries are run at a loss, wasting capital and economic resources, with consumers forced to support them by legislative fiat; the entire risk of enterprise profit or loss is shifted from the shoulders of the the protected firms' stockholders to consumers through higher consumer goods prices;<sup>16</sup> protected enterprises are, in actuality, semi-public institutions, where the consuming public shares the burden of support but not the

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<sup>15</sup>Sumner, "Protective Taxes and Wages," Collection of Essays. . ., p. 4.

<sup>16</sup>Sumner, Protectionism, The -ism. . ., pp. 50-52.

advantage of profit.<sup>17</sup> The ultimate economic consequence of wasted capital and inefficiencies is a drop in overall production.

As a fourth point, the protected industries--far from being economically beneficial--are a serious obstacle to economic development and maximum consumer satisfaction.<sup>18</sup> Besides wasting capital, their very existence actually makes products harder to get than if they did not exist at all. When consumers purchase protected goods, they are required to work longer or harder to obtain a given amount of product, since the price is higher than it would be without the tariff. Tariffs are not a short-cut to creating industry and product, but an economic short-circuit used by privileged businessmen to exploit the consumer-worker.

One of Sumner's favorite examples in this connection is the sewing-women workers of Willimantic, Connecticut, who, reportedly, could earn only fifty cents for twelve hours work, out of which they provided their own thread.<sup>19</sup> Since each spool of thread contained more than one cent in tariff tax, he computes that each woman worked a quarter of an hour each day, not for her own benefit, but

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<sup>17</sup>Sumner, "Protective Taxes and Wages," Collection of Essays. . ., p. 4.

<sup>18</sup>Sumner, Protectionism, The -ism. . ., p. 36.

<sup>19</sup>Sumner, "The Forgotten Man," The Forgotten Man. . ., p. 492.

solely to support the Willimantic Linen Company "which is not worth having and which is, in fact, a nuisance, because it makes thread harder to get than it would be if there were no such concern."<sup>20</sup>

We pay sixty percent tax on cloth in order that that mill may be. It is not an institution for getting us cloth, for, if we went into the market with the same products which we take there now and if there were no woolen mill, we should get the cloth we want, but the mill is simply an institution for making cloth cost per yard sixty percent more of our products than it otherwise would.<sup>21</sup>

Thus, Sumner is in agreement with those protectionists who maintain that protection "creates work," but only by forcing consumer-workers to toil longer hours for the same amount of product. Unfortunately, while creating more work it does not create more product and, thus, in a double-edged fashion, lowers consumer-worker welfare.<sup>22</sup>

As a fifth point, some supporters of tariffs contend that they are necessary for the diversification of domestic industry, and the protection of the new and diversified "infant industries."<sup>23</sup> Sumner, however, rejects the notion that economic diversification can be hastened beneficially by legislative action; a country diversifies itself when it is economically in the self-interest of its

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<sup>20</sup> Ibid., p. 492.

<sup>21</sup> Sumner, Protectionism, The -Ism, . . ., p. 47.

<sup>22</sup> Sumner, Lectures on the History. . ., p. 27.

<sup>23</sup> Ibid., p. 26.

economic agents to do so. To force diversification is to force people and resources into areas which are not in their best interests, implying that legislators hold a better grasp of an individual's self-interest than the individual himself. It also implies that the economy does not maximize production automatically, but need constant legislative supervision. Sumner emphatically rejects the validity of these notions.<sup>24</sup>

He also rejects the notion that the protection of "infant industries" makes economic sense, or can ever achieve its intended results.<sup>25</sup> All that protection does is to limit trade and to encourage the development of domestic monopoly, or, generally, to reinforce all measures designed to hinder economic development instead of helping it.<sup>26</sup> Protection simply places a country's economy at the mercy of domestic monopolists masquerading as "infants," and induces a form of economic "hydrocephalus" which prevents maturity, and makes the "infants" even bigger babies as time goes on.<sup>27</sup>

#### Tariffs and Wages

Another one of the supposed advantages of tariffs is

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<sup>24</sup>Ibid., pp. 11 and 26.

<sup>25</sup>Sumner, Protectionism. The -ism. . ., p. 138.

<sup>26</sup>Ibid., p. 84. Or see, Sumner, Lectures on the History. . ., p. 31.

<sup>27</sup>Sumner, Protectionism. The -ism. . ., p. 113.

its beneficial effect upon wages. Protectionists claim that tariffs protect American businessmen and American workers from the low prices and wages of foreign competition. Tariffs keep wages up and sustain a higher standard of living for the American worker than is possible under a free-trade situation.

Sumner strongly denies any and all of the claimed beneficial effects of duties upon wages and prices. In the first place, as already demonstrated, tariffs waste capital and any wasting of capital automatically lowers the potential wage rate in a country's economy. Inefficiencies, and poorly used capital, ultimately mean lower wage rates and lower standards of living. Only increases in productivity and increases in capital hold the potential for higher wages, and tariffs work against these principles at every point.<sup>28</sup>

In addition, tariffs offset any natural or man-made increases in efficiency that would normally--under competition--have been passed on to the consumer-worker in the form of lower prices. Sumner maintains that tariffs are "hostile to improvements."<sup>29</sup>

The same principle that protection resists improvements applies even more distinctly to those improvements which are made in transportation. In spite of their theories men rejoice in all the improved means of communica-

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<sup>28</sup> Ibid., pp. 103-104.

<sup>29</sup> Sumner, Lectures on the History, . . ., p. 14.

tion which bring nations nearer together. A new railroad or an improved steamship is regarded as a step gained in civilization. Such improvements are realized in diminished freights and diminished prices of imported goods. No sooner is this realized, however, than "foreign competition" is found to be worse than ever. An outcry goes up for "more protection," and a new tax is put on to-day to counteract what we rejoiced over yesterday as an immense gain. We spend millions to dredge out harbors, to remove rocks and cut channels through sandbars, as if it were a gain to have communication inward and outward as free as possible, and as soon as we experience the effects in reduced cost of goods we lay a new tax, like restoring the sandbars, in order to undo our work. Indeed, to build sandbars across our harbors would be<sup>30</sup> a far cheaper means of reaching the same end.

In a majority of cases, tariffs either raise prices or lower money wages, lowering real wages to consumer-workers.

Finally, the prices of goods on which tariff duties are applied have nothing directly to do with the wages of labor anyway. As explained in the chapter on wages (see Chapter Five), the wage rate of labor is determined solely by the demand and supply of labor. Wages do not come out of product, so the price of the product is quite irrelevant--in the short run--to the wages paid; regardless of product price, employers are forced to pay the market price for labor.

The wages which are paid to the men who make an article have nothing to do with the price or value of that article. Labor which is past has

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<sup>30</sup> Ibid., p. 15.

no effect on value. Wages are determined by the supply and demand of the commodity. These two things have no connection.<sup>31</sup>

Hence, an employer cannot force the market wage down, nor will he want to pay more than the market rate. All that he can do is to evaluate his investment decision in the employment of that labor, and shift his capital elsewhere if he believes he is not maximizing profits.<sup>32</sup>

If wages really do determine prices, or prices determine wage rates, how, Sumner asks, can American possibly send wheat and corn five thousand miles to England and there out-sell the English farmers in their own markets?<sup>33</sup> How can they do this when the wages of American farm labor are three times those of English farm labor? Why does the country with the lowest wage rates not produce exports in all products, since it can "afford" to offer the lowest prices on its products? The fact is that there are other more important factors in production than wages--like productivity of capital and technology--and it is these factors which allow Americans to produce competitively priced products in great quantities, while at the same time providing the highest wages in the world. High wages are proof positive of the United States' industrial

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<sup>31</sup>Sumner, Protectionism, The -Ism. . ., p. 102.

<sup>32</sup>Ibid.

<sup>33</sup>Ibid., p. 101.

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superiority.

Thus, the higher wage rates Americans enjoy are not the result of tariffs, which tend to push real wages down as already explained, but the result of the natural and man-made advantages in the American economy. The large accumulations of capital provide a heavy demand for a labor supply already experiencing severe shortages. The high demand and limited supply force wages up; it has nothing to do with "taxes" at all.<sup>35</sup> An interesting appendage to this theory is Sumner's belief that the natural fertility of the American soil provides a wage or "return" which "sets a floor" to the wage that can be earned in manufacturing. So long as men can turn to the rich American soil, the manufacturing wage rate determined by the supply and demand for industrial labor can never drop below the so-called "natural" wage provided by tilling the earth. If it ever tended to do this, men will leave industry and return to the farm, decreasing the industrial labor supply and forcing the industrial wage higher.<sup>36</sup>

To conclude his case against the tariff, Sumner denounces the protective system because of its undesirable political consequences; namely, its tendency to enhance

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<sup>34</sup>Sumner, "Protective Taxes and Wages," Collection of Essays, . . ., p. 10.

<sup>35</sup>Ibid., p. 251.

<sup>36</sup>Ibid., p. 252.



plutocracy, or the unholy alliance between wealth and political power. Tariffs corrupt American political institutions and create a sanctuary for privileged classes "who are saved from the risks and dangers of business to which the rest of us are liable."<sup>37</sup> Tariffs also tend to rally and unite the political forces which support nationalism and militarism.<sup>38</sup> As a final thrust, tariffs are "socialistic," since socialism is a device for "making some people fight the struggle for existence for others."<sup>39</sup> Thus, the system of protection is clearly opposed to Sumner's political ideal of civil liberty and republican government.

The protective tariff system is also opposed to Sumner's conception of justice and correct ethical behavior. Protectionism makes "the industrious suffer for the idle, and the energetic and enterprising bear the losses of the stupid";<sup>40</sup> it is legislation whose moral consequences are to "rob virtue of its rewards [and] to transfer them to vice."<sup>41</sup> He denies that there is anything especially moral in taking the earnings of men who have earned them, and

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<sup>37</sup>Sumner, Protectionism, The -Ism. . ., p. 165. See also, Sumner, Lectures on the History. . ., p. 62.

<sup>38</sup>Sumner, "Free Trade," The William Graham Sumner Papers, p. 10.

<sup>39</sup>Sumner, Protectionism, The -Ism. . ., p. 111.

<sup>40</sup>Sumner, Lectures on the History. . ., p. 13.

<sup>41</sup>Ibid., p. 63.

giving them to those men who have not.<sup>42</sup> For Sumner, these are economic, political, and moral injustices, and reminiscent of the injustices perpetrated in the old despotisms and caste aristocracies through class legislation and political privilege.<sup>43</sup>

Thus, Sumner opposes protective tariffs for economic, political, and moral reasons. Economically, they are undesirable because they lower output (and, thus, real wages) by creating inefficiencies and rigidities. Politically, they invite plutocracy and offend civil liberty. Morally, they direct goods and income from those who deserve them to those who do not.

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<sup>42</sup>Sumner, Protectionism, The -Ism. . ., p. 145.

<sup>43</sup>Sumner, Lectures on the History. . ., p. 63.

## CHAPTER SEVEN

### MONEY, BANKING, AND ECONOMIC CRISES

William Graham Sumner was regarded as one of the leading financial experts of his day; both his History of American Currency and A History of Banking in the United States were among the first serious and extensive attempts to detail America's early financial history.<sup>1</sup> Here, however, as in the last two chapters, the aspects of his writings that will be examined are those which relate to policy, that is, to political economy. We will examine Sumner's conception of the nature of money and the proper amount of it, along with the nature of banks and the effect they have upon economic conditions.

#### The Nature of Money

For Sumner, "money of account" is the term which prices and contracts are expressed in, while "currency" is the actual circulating medium of exchange, and "money" is the commodity set aside by the community to serve as a medium of exchange.<sup>2</sup> All three functions can be embodied

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<sup>1</sup>Starr, William Graham Sumner, p. 217.

<sup>2</sup>William Graham Sumner, Syllabus of Four Lectures on Money and Banking (Boston: 1897), p. 1.

in one expression, as "pounds sterling," or the three functions can be separated, as when prices in the United States between 1862 and 1879 were set in shillings (money of account), paid in "greenbacks" (currency), but referred to gold (money) for determining actual value.<sup>3</sup> He maintains that the more nearly these three expressions coincide, the more reliable and efficient the monetary system becomes.<sup>4</sup>

Though any commodity can serve as money, the rational choice depends upon convenience. Since the function of money is to express, circulate, and measure value, the monetary commodity selected should, logically, embody these three characteristics in some consistent fashion. The important point--no matter what the commodity-- is to define the monetary standard such that it becomes a permanent and accurate measure of economic value, in exactly the same manner as the standards of weight and measure permit calculation of physical value.<sup>5</sup>

. . .the perfection of money does not lie in the direction of a multiple legal tender, but of a single standard, as sharp and definite as possible. Such a standard has the same advantages in exchange as the most accurate measures of length and weight have in surveying or in chemistry, and it is turning backward the progress of monetary science to introduce fluctuations and doubt into the standard of value, just as it would be to cultivate inaccuracy in weights and measures.<sup>6</sup>

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<sup>3</sup>Ibid., p. 1.

<sup>4</sup>Ibid., p. 2.

<sup>5</sup>Sumner, "A Concurrent Circulation of Gold and Silver," The Forgotten Man. . ., p. 206.

<sup>6</sup>Ibid., p. 206.

Given these requirements, custom, tradition, and common sense have often chosen gold or silver as the monetary commodity, although, of course, there is nothing particularly sacred in their selection or use.

Sumner does not accept the proposition that two metals can serve as a standard of value at the same time.<sup>7</sup> Only one economic commodity, for instance, gold, can act as a standard of value at any given time, and all schemes for a bi-metallic standard or "bimetallism" are absurd, and "just as impossible in economics as perpetual motion is in physics. . ."<sup>8</sup> The suggestion that two different metals can be united and circulate concurrently at some legislatively fixed value, with the entire quantity of both metals available as a means of debt payment, is a ridiculous notion which, Sumner holds, violates all the laws of supply, demand, and value.<sup>9</sup> An alternate standard, on the other hand, involving, say, the substitution of silver for gold, is not impossible; since, however, there is no necessary reason for it, Sumner declares it "inexpedient and impracticable."<sup>10</sup>

The size and nature of the money supply are perpetual issues of controversy. Is there "enough" money in

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<sup>7</sup>Ibid., pp. 209-210.

<sup>8</sup>Ibid., p. 196.

<sup>9</sup>Ibid., pp. 191-196.

<sup>10</sup>Sumner, Syllabus of Four. . ., p. 5.

the economy, and is "paper" a legitimate and trustworthy form of currency? On the former issue Sumner repeatedly speaks out against any artificial increases in the money supply by the additional coinage of silver.<sup>11</sup> The "right" amount of money is the amount the population demands to accomplish its economic tasks. Gold is a commodity like any other, and people will produce on the one hand and purchase on the other, as much as they need of it.<sup>12</sup> Even an increase in the population is no automatic signal that more money is needed, since the "efficiency of circulation" can increase and require even less money.<sup>13</sup> To the demands that an increase in the money supply is necessary, he has one reply: all evidence points to the fact that there is already too much paper in the economy. Rising prices and low interest rates--along with recurrent economic crises--demonstrate to Sumner that less, not more money is essential to economic welfare.<sup>14</sup>

The question of "paper" is one of the most difficult and interesting questions in political economy. Since "the value of paper currency depends on its amount" and

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<sup>11</sup>Sumner, "The Free-Coinage Scheme is Impracticable at Every Point," The Forgotten Man. . . , pp. 157-170.

<sup>12</sup>Sumner, "Prosperity Strangled by Gold," The Forgotten Man. . . , pp. 144-145.

<sup>13</sup>Ibid., p. 144.

<sup>14</sup>Sumner, "The Crime of 1873," The Forgotten Man... , pp. 177-178.

since banks and governments are unable (or unwilling) to limit the quantity of paper, Sumner has great misgivings concerning the use of a paper currency.<sup>15</sup> Without adequate control, the value of money can depreciate and initiate financial disaster; an irredeemable paper currency can be "a national calamity of the first magnitude."<sup>16</sup> And yet--despite all these admonishments--a paper currency, redeemable in specie and thoroughly regulated against over-issue and counterfeiting, can be useful since it facilitates the ease of trade and exchange. Unfortunately, no such system yet exists.<sup>17</sup>

Although Sumner implies that the value of a currency depends in general on its amount, he denies that there is any direct and immediate relationship between the money supply and prices.<sup>18</sup> Sumner rejects the simple quantity theory of money which states that increases in the price level are proportional to increases in the money supply.

In general, the history of currency in this country shows that the doctrine that prices will respond promptly and proportionately to changes in the amount of the currency (or even more strictly, of the money of account)

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<sup>15</sup> William Graham Sumner, A History of American Currency (New York: Henry Holt and Co., 1874), pp. 196-225.

<sup>16</sup> Ibid., p. 323.

<sup>17</sup> Ibid., pp. 186 and 196.

<sup>18</sup> Sumner, "Prosperity Strangled by Gold," The Forgotten Man. . ., p. 141. Or see, William Graham Sumner, A History of Banking in the United States (New York: The Journal of Commerce and Commercial Bulletin, 1896), p. 259.

cannot be accepted without important limitations.<sup>19</sup>

There is a relationship between the money supply and prices, but it is not as "simple and direct" as the quantity theory would have us believe. If it were, Sumner maintains, everybody could and would be a speculator, since the future of prices could be predicted with accuracy simply by noting the changes in paper outstanding. However, this is not the case, nor does historical data seem to indicate that it ever was.

#### Banks and Banking

Banks, for Sumner, are institutions whose function is to gather capital (savings) from potential lenders and distribute it to potential borrowers in as efficient and economical a manner as possible. Banks are essentially transfer agencies for potential capital seeking more active participation; they bring--through lending--economic resources to those "who lack capital, but could use it for advantage."<sup>20</sup> The price of capital is determined by the supply and demand for it, and it is up to the banks to indicate this by adjusting--when necessary--the interest rates on its loans and discounts.<sup>21</sup>

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<sup>19</sup>Ibid., p. 139.

<sup>20</sup>Sumner, A History of American Currency, p. 124. See also Sumner, A History of Banking. . ., Author's Preface.

<sup>21</sup>Ibid., p. 29. Or see, Sumner, A History of American Currency, pp. 124-125.



The illegitimate function of banks--and the one that they have engaged in throughout most of their history--is the extension of credit above and beyond their deposits. Technically, a bank can safely lend a fraction of its deposits on the principle that not all depositors will demand their savings at once, and that the rate of new deposits and withdrawals will be about equal.<sup>22</sup> Sumner accuses most banks, however, of extending credit, not capital, by actually lending out more than the quantity of available deposits.<sup>23</sup> This extension of credit is not savings or capital, nor is it founded upon it; it is a dangerous "false credit" which banks use to turn legitimate banking into a "high class confidence operation."<sup>24</sup> Even Alexander Hamilton had been guilty of endorsing this quite faulty--and economically dangerous--view of banking.<sup>25</sup>

The question then becomes, why do banks engage in the extension of credit above deposits? Why do banks overextend "credit"? Sumner maintains that most, if not all, of the evils attributed to banking, the banking system, and the overextension of credit, can be traced to the usury laws, or, more exactly, to the banks' action to evade the

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<sup>22</sup>Sumner, A History of Banking. . . , pp. 22-23.

<sup>23</sup>Ibid., pp. 29-30.

<sup>24</sup>Ibid., pp. 22-23.

<sup>25</sup>Ibid., pp. 22-23 and 145.

restrictions of the usury laws.<sup>26</sup> Prevented by usury laws from raising interest rates to levels dictated by the demand for and supply of loanable funds, bankers--in an attempt to ration scarce capital efficiently--do the next best thing; they extend the supply of funds by overissuing notes or creating "false credit."<sup>27</sup>

Nine-tenths of the evil practices of banks were due to attempts to evade that law in obtaining rates which were legitimately theirs by the operation of the market. If they had been allowed to operate on their discount rate, they would have had less motive to operate on the amount of circulation.<sup>28</sup>

Thus, the evils attributed to the banking system are not inherently a part of that system at all. They are, for Sumner, a reaction to an artificial interference with the great economic laws of value. Government interference with the business of banking is "as mischievous as its interference with any other trade."<sup>29</sup>

Although Sumner pinpoints the legislatively enacted usury laws as the ultimate cause of overissue, he does not totally exclude the possibility of legitimate and beneficial governmental assistance in financial matters. For example, he lauds the creation of the National Bank System,

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<sup>26</sup>Sumner, "The Influence of Commercial Crises on Opinions About Economic Doctrines," The Forgotten Man. . ., p. 220.

<sup>27</sup>Sumner, A History of American Currency, pp. 124-125.

<sup>28</sup>Sumner, A History of Banking. . ., p. 182.

<sup>29</sup>Sumner, A History of American Currency, p. 323.

and the simultaneous development of a "national uniform currency"; he feels that this system has finally put an end to the "old bankers trick of expansion and contraction," or an elastic currency.<sup>30</sup> Since these governmental measures do nothing to interfere with the price mechanism, but only seek to ensure the uniformity and safety of a national monetary standard, Sumner supports them.

#### Theories of Crises

Sumner's theory of "commerical crisis" and the trade cycle are related directly to his conception of the legitimate and illegitimate functions of financial institutions.<sup>31</sup> As banks lend false credit, that is, credit beyond their accumulated deposits, and as competition for profits from loans forces others to lend still more credit, the paper notes outstanding swell to such proportions that they disrupt and "clog" the channels of trade, and precipitate an economic crisis. He maintains, for instance, that the shoddy credit to poor investment risks represents a highly unstable and precarious situation. Any change in the exchange rates or any reduction in gold deposits can pinch bank reserves and start a general withdrawal and recall. A slight withdrawal of gold can deflate--in a multiple fashion--an economy built upon credit. The collapse

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<sup>30</sup>Sumner, A History of Banking. . ., pp. 464-466.

<sup>31</sup>Ibid., pp. 181-182.

of these false investments and the liquidation of many "uneconomic" firms and banks follows inevitably.

When things seemed prosperous and the exchanges were favorable, the banker put out his circulation. When one did it, the others did it, and the consequence was a general inflation. Presently the issue became excessive. The exchanges turned and a little specie was shipped. Thereupon, the vital nerve being touched, a shock went through the entire system. Discounts were refused; loans could only be obtained through brokers at extravagant rates; the circulation was contracted very suddenly; the commercial system was arrested; then industry stopped; production was reduced; wages were lowered; and finally the farmers, so far as they were debtors, were reached. This severe remedy operated as a cure, and all were ready to begin again. . . .<sup>32</sup>

In another instance, Sumner holds that excessive extension of credit, in a general period of high production, prevents prices from falling fast enough to clear markets.<sup>33</sup> A temporary "glut" of goods occurs and continues until liquidation forces the excess credit from the economic system. As prices fall and goods move again, a general business revival is initiated. In either explanation of commercial crisis, most of Sumner's emphasis falls on the excess paper extended by the banking system. This is not the sole cause of crisis, or the business cycle, but it surely is one of the most important--especially in Ameri-

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<sup>32</sup> Ibid., p. 181.

<sup>33</sup> Sumner, "The Strikes," The William Graham Sumner Papers, p. 14.

can economic history.<sup>34</sup>

As a concluding point, Sumner holds that the most unfortunate aspect of economic crisis is the fact that it has its worst effects on the forgotten man, the common workman who has nothing to do with the cause, duration, or severity of the cycle, but who bears the brunt of the burden through falling income and employment.<sup>35</sup> Over-issue also hurts the debtor, or that very class of persons most vocal in demanding an increase in the money supply.

In all cases of relief attempted by big paper money machines the advantage was won by influential individuals who got the management of the undertakings into their hands and turned it to their own profit. It may be said, almost without limitation, that all paper money issues and stay laws for the relief of the debtors have had as their sole result, to curse debtors with life-long poverty, misery, and debt; and further, that in the history of this country "relief" has been the word of the most direful omen to those-who-have-not that the dictionary contains.<sup>36</sup>

Again, as in the past, the innocent forgotten men will bear the burdens of undeserved financial and commercial hardship.

Sumner's analysis of money and banking is consistent with his views on all topics that concern political eco-

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<sup>34</sup> Sumner, A History of Banking. . ., p. 120. See also, Sumner, "The Influence of Commercial Crises on Opinions About Economic Doctrines," The Forgotten Man. . ., pp. 219-220.

<sup>35</sup> Sumner, A History of Banking. . ., p. 103.

<sup>36</sup> Ibid., p. 139.

nomy; for Sumner, a general policy of non-interference is the rule. There is no evidence that governmental interference in banking does any good; indeed, most of the evidence is to the contrary. Any constructive governmental measures to enhance the soundness of the currency are legitimate and endorsed. Any and all legislative interferences with prices or interest rates are condemned. The essential point, again, is that there simply are not many ways that governmental interference in economic matters can bring about the desired beneficial consequences. This principle is just as true for Sumner in banking as it is in the other economic areas that he examines.

## CHAPTER EIGHT

### CRITICISM AND EVALUATION

This chapter will be divided into three parts. In the first part we will make general criticisms which apply to all of Sumner's theories. The second part will review the entire Sumnerian system, and criticize some specific aspects of his theories. To conclude, we will review and evaluate the nature of some of the criticism which has been directed against Sumner.

#### General Criticism

From a strictly economic point of view, it can be observed that William Graham Sumner has no real conception of the workings of impure or imperfect competition. All the economic models that he develops to determine prices, wages, and interest rates implicitly assume what we would term pure competition. None of the economic units in his models appears to have any autonomous control over price, nor do they appear to be able--in the short run at least--to influence the price of their product or the wages they pay for labor factors. The prices of products, services, and factors are all controlled and

set in the market by the appropriate set of supply and demand forces, and no one can interfere. All business units can attempt to do is vary outputs so that their profits are maximized.

When varying degrees of competition are recognized, however, firms acquire some control over price. Once imperfect competition is admitted, it becomes theoretically possible that something less than an optimal allocation of resources occurs under complete laissez-faire. It is also possible to show that most of the welfare propositions of free competition become inoperative or at least indeterminate under such conditions. Since a significant portion of Sumner's argument for laissez-faire rests on the supposed economic superiority of that system in accomplishing allocative efficiency, these points may be a significant theoretical blow to his system.

In the second place, Sumner's entire economic analysis assumes a fully employed economy. His whole "conservation of energy" thesis, and almost his entire discussion of tariffs, is valid only if all economic resources are employed in the production of current output. Obviously, to shift a resource from ship production to shoe production will increase the output of shoes and lower the output of ships. But if resources are idle--unproductive--and can be made productive by a tariff or some governmental device, then no economic cost or sacrifice in alternative production is involved, and a net gain in output is poss-



ible. Sumner, it seems, fails to consider this possibility.

As a third point, despite his desire to be evolutionary in approach, Sumner's analysis is quite static and short-run. His entire discussion of wage rate determination, for instance, is devoid of real dynamic influences, and seemingly devoid of the interrelationship between product demand and factor demand. If factor demand is derived from the demand for the product, then the forces in the factor and product markets cannot be as independent as Sumner assumes. If they are not completely independent, Sumner's statement that wages come out of capital and profits come out of product becomes entirely misleading.

Being static and short-run, Sumner's analysis is, unsurprisingly, microeconomic. Individual firm and consumer behavior--especially with regard to wages--is examined apart from any income changes that they might induce within the system. For instance, while wage cuts may, indeed, reduce costs and encourage production, they may also reduce consumer income and, correspondingly, the demand for products. There seems to be no evidence that Sumner is aware of this sort of analysis.

In conclusion, once imperfect competition, underemployment of resources and rigid prices are assumed, it is possible to demonstrate that a laissez-faire system of

enterprise may not produce optimal efficiency or production. The system can, as Keynes has shown, achieve an under-employment equilibrium position from which it has no rational tendency to depart. If all this is true, a legitimate economic case for government intervention can be made, and Sumner's arguments are weakened considerably. (It seems inappropriate to debate the merits of the Keynesian analysis here. It suffices to mention that a minority of economists are not in agreement with the premises or conclusions of that system of thought, nor with the attack on laissez-faire.)<sup>1</sup>

#### Specific Criticism: Economics

Science, according to Webster's New International Dictionary,<sup>2</sup> is "knowledge. . .systematized and formulated with reference to the discovery of general truths or the operation of general laws." If economics is assumed to be a science, then Sumner's metaphysics appears to be non-controversial. All economists--like all biologists--assume, by the nature of their work, the existence

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<sup>1</sup>For a detailed explanation of how two economists think a laissez-faire system could function, see the following: Ludwig Von Mises, Human Action (New Haven: Yale University Press, 1963); and, Murray N. Rothbard, Man, Economy, and State (New Jersey: D. Van Nostrand Company, Inc., 1962).

<sup>2</sup>"Science," Webster's New International Dictionary, Second Edition, Unabridged (Springfield, Massachusetts: G. & C. Merriam and Company, 1958), p. 2238.

of a physical, objective world where consequences are the result of antecedent causes. Likewise, there seems to be little quarrel with Sumner's epistemology. Although he indicated that the inductive, scientific approach is the proper methodological tool for deriving information from reality, he is also heavily deductive in his own analysis. Almost all economists would admit that a careful blend of the two attitudes is a healthy approach in the pursuit of economic knowledge.

Sumner's analysis of economic forces and laws can become controversial if misinterpreted. He believes that economic laws, like physical laws, are immutable and unchanging. He means that a cause-effect relationship underlying an economic law is fixed, and cannot be changed by man. Man may alter the economic variables within an economic law and attempt to achieve effects coincident with his intentions, but he is powerless to affect the relationship between cause and effect. Thus, given fixed amounts of capital and land, and a constant technology, the addition of labor eventually increases output at a decreasing rate. Given the above assumptions, this relationship is always true. The controversy arises when man seeks to observe or apply economic laws in real circumstances. In the real world, the conditions of any given situation never seem to fit the assumptions of the "pure" case from which the law is derived. In the real economic world, "variables" disrupt or modify the conditions upon which

the pure law is based. Therefore, when the law comes to be applied to some real economic problem, it loses its ability to predict absolute results. It allows man to predict what might happen in some given time period; it never seems to be exact enough to tell him precisely what will happen and when. Thus, although the law of diminishing returns stated above is always true, its applicability to any situation in the real world--where land and capital are rarely fixed or homogeneous--is very limited.

Sumner's discussion of the economic foundations of society, that is, his emphasis on scarcity, population and land is an interesting--though unsophisticated--economic model. Its purpose seems to be to show that men get nothing free from nature, that their efforts to sustain life are a constant economic battle with nature, and that the outcome of the struggle is dependent upon (1) land defined to include "the state of the arts", and (2) the number of men engaged in the struggle. Thus, men increase their welfare only by increasing their "means of subsistence" or decreasing their numbers. At any given moment in time, their welfare is determined by the man-land ratio.

There are a number of difficulties here. In the first place, Sumner is writing for a basically agricultural society, and it is not surprising, therefore, that his theories place crucial emphasis on the amount and condition of land. In an industrial community, however, it is doubtful whether the amount, or even the original nature

of the land assumes anywhere near the importance that it does in Sumner's theories. Sumner's economic model seems, in other words, fitted more to describing the "struggle for existence" in an underdeveloped country, than it does to describing the continued growth of a developed country.

Also, there is no evidence that Sumner ever investigated the welfare aspects of redistribution. He assumes, for instance, that economic welfare increases only by increasing the goods or decreasing the men. However, if it is possible to so reallocate income or product that no one is made any worse off, and some are made better off, the welfare of a community can increase without increases in product or reductions in population.<sup>3</sup>

Sumner's emphasis on the importance of capital seems justified. It is capital goods that sustain and support an industrial civilization, and without them industrialization and increases in welfare are unlikely and almost impossible. Yet for all his discussion of the importance of capital, his analysis seems to lack a discussion of the importance of trained labor without which, also, an industrial civilization is not possible. Sumner mentions the value of skilled labor but does not place significant emphasis upon it, or upon the fact that industrialization might possibly be slowed more from a lack of skilled labor than from a shortage of capital goods. Capital is impor-

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<sup>3</sup>Blaug, Economic Theory. . . . pp. 535-547.

tant, and may even be the key factor in economic development, yet bottlenecks in other factor areas may slow the application of capital and, correspondingly, the pace of economic development itself.

Sumner's undiluted praise for the "captain of industry" may be naive, although this is an extremely difficult area of examination. It seems to be a "what would have happened if" situation, in which all sorts of speculation are possible. For instance, it may be quite true that capital could have been accumulated and applied without the special skill of a private class of industrial "captains." The success of some public enterprise in selected countries admits the possibility. As another example, the captains of industry most assuredly did not direct all phases of their entrepreneurial undertakings; a significant amount of the success of their enterprises could have resulted from the decisions of an efficient managerial class. Sumner does not seem to consider adequately these possibilities. In fact, he predicts that more and more companies will come under the personal control of one important man, since this is the kind of efficiency demanded by modern enterprise.<sup>4</sup> This surely was a naive position, and one contradicted by the evidence of modern industrial development.

Sumner's analysis of competition and monopoly is un-

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<sup>4</sup>Sumner, What Social Classes. . ., p. 49.

usual and invites comment. His two-fold classification of competition--man against nature, man against man--is especially important. In that discussion, he highlights one of the essential features of economics, that is, the fact that wealth is not fixed in amount, but can be created and enlarged by production, or the efficient assault upon nature by men in economic organization. While highlighting the former definition of competition, however, Sumner does not ignore the latter. He maintains that man-to-man competition is inevitable so long as men with unlimited wants desire goods in scarce supply. The important point is that the more successful the man-to-nature form of competition, the less vicious the man-to-man variety.

Monopoly is a particular problem and its definition involves a number of Sumnerian distinctions. He believes that a monopoly is either natural or artificial, that is, it arises either "from the facts in the order of the universe" or from governmental intervention in the market place. The first type of monopoly cannot be prevented since it is not the product of man, but of nature. The second type is man-made and is always the result of privileges and favors dispensed by plutocratic government. There is no third type of monopoly, or monopoly established without natural or artificial advantages by a private firm on a free market. A monopoly not founded on natural or

artificial advantages is extremely unlikely and inevitably short-lived. He has said:

I am not yet able to see that any trust can succeed unless it is founded on a natural or legislative monopoly, and furthermore on a monopoly whose product cannot be produced in an amount exceeding the demand at the price which has been customary before the formation of the trust; and I cannot see any chance for legislation to do any good unless it is in the repeal of all such laws as are found to furnish a basis for the organization of an artificial monopoly.<sup>5</sup>

Because he did not understand imperfect competition, Sumner, of course, did not understand degrees of monopoly power. Modern analysis might admit that a pure monopoly is unlikely on a free market without an artificial or natural advantage; it would not admit, however, that lesser degrees of monopoly power must necessarily be derived only from such "advantages." Large corporations hold degrees of monopoly power by the very fact of their size in relation to the market. The source of this "power" need not be plutocratic or natural. Thus, it is possible that a group of economic institutions holding a significant degree of monopoly power can be fitted between Sumner's examples of pure natural monopoly and pure plutocratic monopoly. If this is the case, and if these economic organizations are quite widespread within the economy, Sumner's simple theory is not useful in explaining the facts of

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<sup>5</sup> Sumner, "Trusts and Trade Unions," The Forgotten Man. . . , p. 262.



economic life.

Sumner expects most natural monopoly to "evolve" away. He expects competition to initiate technological forces to break it down. On the other hand, he also expects legitimate accumulations of capital to remain and, in fact, become more concentrated as modern enterprise requires. He believes that so long as concentrations of economic power are not plutocratically based--and this, in his system, is preventable--there is nothing to fear; accumulations of capital, in relation to the tasks of production, are normal and to be expected. In fact, these very accumulations will provide the technological advances and products that sustain continued economic growth.

There seems to be a great readiness in the public mind to take alarm at these phenomena of growth--there might rather seem to be reason for public congratulation. We want to be provided with things abundantly and cheaply; that means that we want increased economic power. All those enterprises are efforts to satisfy that want, and they promise to do it.<sup>6</sup>

The Sumnerian thesis that large accumulations of capital employed by relatively large firms are responsible for economic growth is similar, but not identical, to those advanced by Schumpeter, Galbraith, and Slichter. In these later theories, it is the large firm that initiates growth and development since only the large firm has the

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<sup>6</sup>Sumner, "The Concentration of Wealth: Its Economic Justification," The Challenge of Facts. . ., p. 84.

economic resources or the economic incentive to carry on research, development and innovation. Schumpeter, for instance, maintains that the economists' fascination with the purely competitive model and atomistic price competition has blinded him to the facts of economic life which are, essentially, "change" and innovation.

. . .in capitalist reality as distinguished from its textbook picture, it is not [price competition] which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance)--competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of existing firms but at their foundations and their very lives.<sup>7</sup>

As soon as we go into details and inquire into the individual items in which progress was most conspicuous, the trail leads not to the doors of those firms that work under conditions of comparatively free competition but precisely to the doors of the large concerns--which, as in the case of agricultural machinery, also account for much of the progress in the competitive sector--and a shocking suspicion dawns upon us that big business may have had more to do with creating that standard of life than with keeping it down.<sup>8</sup>

Both Galbraith and Slichter seem to agree with the conclusions of the Schumpeterian analysis. Galbraith holds that "there must be some element of monopoly in an industry if it is to be progressive."<sup>9</sup> He concludes:

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<sup>7</sup>Joseph A. Schumpeter, Capitalism, Socialism and Democracy (New York: Harper and Row, 1962), p. 84.

<sup>8</sup>Ibid., p. 82.

<sup>9</sup>John Kenneth Galbraith, "The Economics of Technical Development," Monopoly Power and Economic Performance, ed. Edwin Mansfield (New York: W. W. Norton & Co., 1964), p.42.

Thus, there can be little doubt that oligopoly, both in theory and in fact, is strongly oriented toward change. There can be no serious doubt at all that the setting for innovation, which is so favorable in this market structure, disappears almost entirely as one approaches the competition of the competitive model.<sup>10</sup>

Slichter maintains that "much thinking on the relation of bigness to competition is out of date and unrealistic!"<sup>11</sup>

. . . competition among large firms is superior in quality to competition among small firms and serves consumers more effectively. This is because the greater research by the large firms gives the consumers a wider range of choice over a period of years than competition among a much larger number of small firms that can afford little or no research. . . In view of the growing importance of large enterprises as a source of competition and the superior quality of this competition, a move to break up large concerns would be a blunder.<sup>12</sup>

The theories held by Sumner, Schumpeter, Galbraith and Slichter do not seem to agree with the "traditional" theory of big business. The traditional view holds that large corporations are not necessarily efficient or progressive, since their semi-monopolistic market positions insulate them from the rixors of competition. From this sanctuary they can keep price above marginal costs in the short-run, and above minimum average cost in the long-run, thus "exploiting" the consumer and misallocating

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<sup>10</sup> Ibid., pp. 43-44.

<sup>11</sup> Sumner H. Slichter, "In Defense of Big Business," Monopoly Power and Economic Performance, p. 13.

<sup>12</sup> Ibid., p. 17-18.

economic resources.

Hence, in the traditional view, concentration of economic power, by distorting the allocation of resources, impairs the performance of the economy in satisfying human wants. This is why economists have traditionally viewed the breakdown of competition in many industries as a threat to the efficient operation of the free market mechanism. It is the reason. . . why economists have traditionally urged the forceful application of antitrust laws to keep firms from becoming too big.<sup>13</sup>

In conclusion, Sumner's position on big business is debatable. Personally, the author supports the Schumpeterian thesis that the large firm has helped growth more than it has hurt it, and thus finds little fault with the Sumner approach in this specific area.

#### Specific Criticism: Economics and Government

With regard to the proper institutional arrangements to implement his idea of civil liberty, it should be noticed that Sumner has so defined republican government and plutocracy that they are, by definition, incompatible. That is, "good government" is government which is not plutocratic; it is government whose sole function is to preserve and protect civil liberty and property rights. Since--again by definition--all economic legislation seeks to undermine the liberties of some individuals and their

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<sup>13</sup> Edwin Mansfield, "Introduction," Monopoly Power and Economic Performance, p. viii.

exclusive right to their own property, it is definitionally incompatible with republicanism. Thus, it seems futile to attempt to attack Sumner at this level since he is, by his own definition, necessarily correct in conclusions reasoned from his own assumptions. If there is to be any controversy, it must center on the definitions themselves.

What is good government in a free society? Is it government which responds to the wishes and needs of its citizenry through legislation? Or, instead, is it government which attempts to uphold strictly the expressed and implied constitutional guarantees of civil liberty and private property? Sumner holds to the latter definition; good government is government which insures that "peace, order, and the guarantees of rights" shall be the primary goal of political action. He thus rejects as improper all legislation which seeks, in his view, to undermine a man's civil liberties or property rights. Most political scientists and economists, presumably, would lean toward the former definition. They would place less emphasis on the protection of civil liberty and private property rights, and more emphasis on the achievement of full employment or the equalization of economic opportunities. Thus, although Sumner is logically correct given his selection of goals, these goals are not the primary concern of the vast majority of contemporary intellectuals who deal in these issues.

Sumner holds that most people fail to distinguish between economic power gained on a free market, and economic power gained by political power on a "rigged" market. The former increases man's welfare by increasing his power to extract goods from nature. The latter is a threat to civil liberty and property; it is plutocracy, and it is a flagrant abuse of the principles of republican government. Large-scale enterprise on a free, competitive market, no matter how powerful economically, cannot destroy civil liberties, nor can it take people's property by force or regulate its use by legal procedures; these are examples of political power, and no private institution in Sumner's republic can hold it in any degree. Only plutocratic government can originate and sanction such techniques. Again, therefore, Sumner is logically consistent given his definitions and, again, these are not the particular definitions of the contemporary analysts.

Sumner's argument against plutocracy on moral grounds is also a definitional problem, and one involving personal judgements of value. If to shift burdens from one individual to another by force--by legislation--is wrong, then plutocracy is immoral. If it is wrong--unjust--to make the middle classes assume the burdens of the impoverished classes through welfare legislation, or to give one competitor artificial advantage over another, then, again, plutocracy is immoral and condemnable.

Sumner is logically correct because he does define immorality as the shifting of burdens, and sees little need or favorable consequences of intervention; hence, his condemnation of plutocracy on moral grounds is correct, given his assumption. Since the assumption is a value judgement, however, the entire issue is open to question by anyone with a different set of value judgements.

The final area of controversy in Sumner's political economy is purely economic. Does speculative legislation foster rigidities and inefficiencies, is it harmful to economic growth, and does it frequently produce results opposite to those intended? Again, no simple answers seem possible since the issues here are still being debated. The "Chicago School" of economics might maintain that Sumner is quite correct in this aspect of his analysis. Government intervention in economic affairs, especially when the intervention or control is aimed at prices or costs, does foster rigidities, does misallocate resources, and does, more than not, tend to produce the very opposite results from those intended. We have economic growth despite, not because of government intervention.<sup>14</sup>

This is, however, the minority view. Most economists would tend to feel that government economic legislation--for the most part--does not hurt, but actually fosters

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<sup>14</sup> Milton Friedman, Capitalism and Freedom (Chicago: The University of Chicago Press, 1962).

the general economic welfare and our chances for economic growth. What is required is more select involvement to bolster a basically unstable economy which, if left to itself, could not guarantee the full utilization of all its potential economic resources. These economists would generally deny that such legislation induces inefficiencies, or would regard this problem as relatively unimportant in the light of higher priority goals like full employment or increases in output. They would also deny that government intervention produces results opposite to those intended; the results are generally satisfactory, and if they are not, bigger and better programs are mandatory. They can point to the history of the United States economy between 1945 and 1965, and maintain that their programs have resulted in anything but the economic disaster predicted by William Graham Sumner.

#### Specific Criticism: Applications

It is difficult to make any sense out of the Sumnerian idea that "wages are paid out of capital and not out of product." He seems to neglect completely the fact that even during his artificial "period of production" the demand for labor--and thus the wage rate--is a function of the expected marginal product of the factors employed. The demand for the factors of production is derived from the demand for the product, and there can be no demand for



labor, and no wages, unless there is a sufficient demand for the product that labor produces. Thus, since an employer's demand for factors must necessarily include a calculation of the expected productivity of those factors, the wage rates paid are necessarily related to product, or at least to "expected" product. If wages and product are related, so, of course, are wages and profits.

Another related difficulty is that Sumner seems to believe that employers cannot influence the wages paid in the labor market; they pay at least the market rate, and not more. Once monopoly power is recognized in the labor market, however, it becomes possible for employers--and employees --to acquire a degree of control over the price of labor. Once this is admitted, wage rates above and below the "market rate" are possible and depend on the "bargaining power" of the parties. Since Sumner assumes pure competition in the labor market, he does not seem to admit these possibilities.

The validity of Sumner's position on tariffs depends on the assumption of full employment, an assumption which Sumner fails to make explicit. If resources are fully employed, then a tariff simply shifts resources from unprotected industries to protected ones. He holds that this shifting of resources produces less total product at higher prices, and thus lowers consumer-worker welfare.

If the economy is not fully employed, however, and if unemployed economic resources can be activated by a tariff or protective duty, then a net domestic gain in production is possible. The remainder of his analysis is clear, consistent, and relatively uncontroversial; the only section which evokes comment is the effect of tariffs on wages. Since the arguments appropriate to a critical appraisal of his wage theory are also applicable to his analysis of tariffs and wages, they will not be repeated here.

It should be pointed out that the entire Sumnerian analysis concerning the appropriateness of tariffs is viewed from the position of the consumer. This point is made explicit by his arguments against tariffs which seek to protect infant industries; industries masquerading as "infants" are quasi-monopolies which exploit consumers. If interests other than those of the consumer are recognized, however, for instance the whole question of the production of goods involved with national security, then the inappropriateness of tariffs can be questioned. If national security requires the development and production of munitions, and this can only be accomplished through tariff protection, then tariffs are appropriate. Sumner, it seems, does not take account of the special requirements dictated by a war or quasi-war situation.

Sumner's views on the proper role and nature of money

are those of a conservative, "hard money," anti-inflationist. He opposes the free coinage of silver, bi-metallism, increases in the money supply based upon fractional reserves, and paper money not redeemable in specie; even redeemable "paper" arouses his suspicion, for the danger of paper money inflations is persistent. In addition, banks must be transfer agencies that re-lend savings, and not institutions which "create" credit. Credit creation is an infectious disease whose immediate effect is an increasing price level, and whose ultimate commercial consequence is recession and unemployment.

Sumner's analysis of the cause of bank overissue is interesting, and in the mainstream of his political economy. Legislatively enacted usury laws prevent bankers from obtaining interest rates on loans at a rate determined by the market; as a consequence, they attempt to regain the lost profit and satisfy the artificially induced demand for funds by over-extending credit. Nowhere, however, does he attempt to prove this allegation with empirical evidence. Thus, while the explanation of bank overissue is consistent with his general thesis that most economic interference by government is mischievous, an empirical demonstration that usury laws are responsible for this over-issue is lacking.

Sumner holds that bank over-issue is responsible for the business cycle. In the first place, it inflates prices and causes a gold drain, which slows the extension of credit

and initiates an economic slowdown. Second, over-issue prevents prices from falling fast enough to clear commodity markets.

The redundant currency proved a barrier to the exchange of commodities, which, if we had produced too much, ought simply to have made us very rich. It would not let prices fall so as to make the exchange possible, nor yet allow of an export of the surplus if we preferred foreign goods in exchange for it.<sup>15</sup>

This last explanation of cycles seems confused. It is probable that Sumner believes that "credit" induces business over-investment, which later produces a temporary "glut" in product markets. The "glut" will remain until the money supply decreases, and prices fall.

#### A Critical Viewpoint Examined

Many commentators have suggested that Sumner was a Social Darwinist, an evolutionist who believed in a "process of constant struggle, men against nature, and men against men, for the products of nature."<sup>16</sup> Evolution, moreover, was natural and inevitable, founded on natural laws, and men could do little to alter the pace or direc-

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<sup>15</sup> Sumner, "The Strikes," The William Graham Sumner Papers, p. 14.

<sup>16</sup> Calhoun, "American Masters and Contemporary Sociology," Social Forces, p. 19. Also see Joseph J. Spengler, "Evolution in American Economics," Evolutionary Thought in America, ed. Stow Persons (New Haven: Yale University Press, 1950), p. 218. See also, Gordon Harrison, Road to the Right (New York: William Morrow and Company, 1954), pp. 171-172.

tion of the change it produced. Hence, Sumner was an economic determinist and a fatalist who preached a sermon of passive obedience "to the forces in the nature of the universe."<sup>17</sup>

The essence of wisdom was to accept life as it was found, and to exercise reverent caution before acting willfully or purposively. . . . Sumnerian social science meant acceptance of things as they were, and the imposition of strict limitations upon the legitimate scope of human activity.<sup>18</sup>

In an age of helter-skelter reform, he tried to convince men that confidence in their ability to will and plan their destinies was unwarranted by history or biology or any of the facts of experience--that the best they could do was bow to natural forces.<sup>19</sup>

. . . social evolution is automatic and inevitable and we will only retard progress by any man-made plans for social progress. This view was vigorously upheld in the United States by. . . William Graham Sumner of Yale University.<sup>20</sup>

The author believes that the preceding comments are a misrepresentation of Sumner's position. First of all,

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<sup>17</sup>In this regard see, Calhoun, "American Masters and Contemporary Sociology," Social Forces, pp. 24-25. See also, Ellwood, The Story of Social Philosophy, pp. 524-525.

<sup>18</sup>Persons, Social Darwinism. . . , p. 7.

<sup>19</sup>Hofstadter, Social Darwinism in American. . . , p. 66.

<sup>20</sup>Harry Elmer Barnes, Historical Sociology: Its Origin and Development (New York: Philosophical Library, 1948), p. 175. This list of quotations can easily be extended. As a final example, however, observe the following: "He in effect maintained that the mind is entirely molded by circumstances and that it should resign itself to that fact, abandoning every pretense either that it has innate ideas or that it can remodel the world." Perry Miller, American Thought: Civil War to World War I (New York: Rinehart & Company, 1959), p. xxvii.

to be an "economic determinist" does not necessarily make one an economic fatalist. Sumner is an economic determinist in the sense that he believes that economic facts and forces influence social and political institutions. Maurice Davie has written:

Sumner was thus an economic determinist not in the doctrinaire sense of Karl Marx, but in the belief that economic institutions are more basic than other institutions. He maintained that political and social institutions find their basis in economic fact, and that the stage of the industrial organization existing at any time is the controlling social factor.<sup>21</sup>

He might also be classified as a determinist because he regards economic laws as permanent facts of economic life to which men are necessarily subject. As demonstrated in the body of this study, he does accept some social facts as principles; there are laws in economics, and they are just as operative and just as real as the laws of chemistry or physics. Thus, at any given instant of time, Sumner would hold that (1) the welfare of man is determined by the man-land ratio; (2) given fixed quantities of land, a given technology, and the addition of variable factors, it is determined that the marginal product from the land will eventually decrease; and (3) wages are determined by demand and supply. Yet the acceptance of these statements--and there are reservations--does not make Sumner an economic fatalist. These statements do not mean that (1) the

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<sup>21</sup>Davie, William Graham Sumner, p. 22.

course of man's economic condition is predetermined and cannot be altered; (2) total product from land must always grow at a decreasing rate; or (3) wages cannot change because supply and demand cannot be modified. Sumner recognizes that rational men can alter the conditions to which these three tendencies apply by technological change embodied in increases in capital. Thus, man's welfare can increase if he can create an industrial civilization by increasing capital goods.

The next essential point is that Sumner believes man can accomplish the task of industrialization--while preserving civil liberty--best through a system of laissez-faire. He did not try "to convince men that confidence in their ability to will and plan their destinies was unwarranted by history or biology." He tried, instead, to convince men that social legislation and plutocracy were not the proper methods to create and sustain a free, prosperous republic.

Finally, his position on political economy is not an endorsement of the status quo. For Sumner, the status quo was "plutocracy, jobbery, and privilege," and no one fought more valiantly than he against these abusive uses of political power. The mission of his political economy was to present a consistent ideological case for a laissez-faire system of enterprise, and this was not then, in his belief, the status quo. As Harris E. Starr has said:

Against the charge that he favored letting things as they are alone, may be put the fact that he spent his life in trying to change them, displaying an unselfishness, devotion, and above all a loyalty to truth, which few of his critics have ever revealed. While others have put forth one project or another for making the world over, Sumner, equally concerned for the good of society, plead for laissez-faire, because exhaustive investigation and honest reflection persuaded him that this policy alone is conducive to human well-being and in harmony with eternal moral principles.<sup>22</sup>

This study has demonstrated that William Graham Sumner adopted the political economy of laissez-faire because he feared the political, economic, and moral consequences of plutocracy. He held that plutocracy destroyed his conception of civil liberty, wasted capital, and lowered output, and worked undeserved hardships on the great middle class of "forgotten men." He attempted to support his arguments by an integration of "liberty" with economics and politics. Whether his analysis or conclusions are enough to earn him a special place in economic theory is questionable. They may, however, earn him a deserved place in the history of economic liberalism.

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<sup>22</sup>Starr, William Graham Sumner, pp. 463-464.



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