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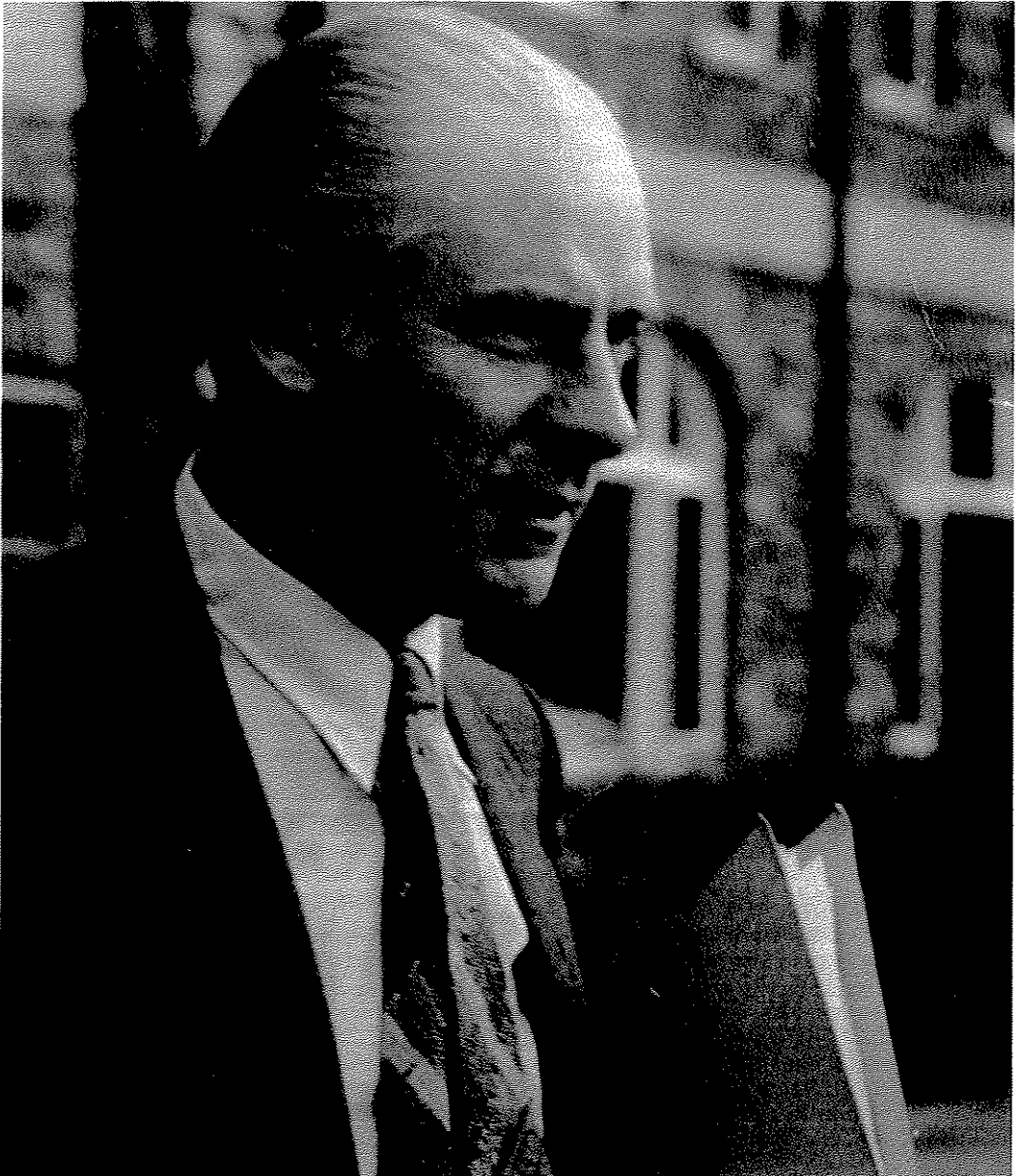
MANHATTAN REPORT

ON ECONOMIC POLICY

MANHATTAN INSTITUTE FOR POLICY RESEARCH

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W.H. Hutt



An Economist For This Century

Hutt: An Economist For This Century

The Great Depression serves for many as a symbol of the failure of unrestrained market economies to provide for stable employment and growth. The economic malaise of the 1930's led politicians and economists alike to embrace the theories of John Maynard Keynes, which called for strong government fiscal policy—taxing and spending—to provide the “aggregate demand” deemed necessary to fully employ the nation's idle resources. As years of deficit spending have resulted in both high inflation and economic stagnation, however, the Keynesian aggregate demand model has fallen into disrepute.

There was one economist in the 1930's who stood fast against the Keynesian onslaught and provided future generations with an eloquent re-definition of the classical arguments for full employment and economic growth. That economist was William H. Hutt, a British-born graduate of the London School of Economics, who spent most of his professional life in the relative isolation of South Africa. A professor of economics at the University of Capetown for thirty-seven years (1928-1965), Hutt produced an important, yet neglected, body of theoretical work which touched on most of the major economic debates of the century. In areas as diverse as macroeconomics, interest group politics, and race discrimination, Hutt provided analyses that foreshadowed the most sophisticated work currently appearing in these fields.

In 1965, Hutt came to the United States to serve as a visiting professor of economics at the University of Virginia. For the past nineteen years, Hutt has remained in the U.S., teaching at a number of major universities and interacting with a new generation of economists who have come to appreciate his work.

This summer the Manhattan Institute interviewed Hutt, now 84 years old and Professor Emeritus at the University of Dallas, on topics that range from the failure of Keynesianism to the question of political reform in South Africa. We also spoke with two of the nation's most eminent economists: Mancur Olson, Professor at the University of Maryland and author of *The Rise and Decline of Nations*, discusses the role of Hutt in explaining the impact of interest groups on the economy; James Buchanan, Professor at George Mason University in Virginia and one of the intellectual architects of the Public Choice school of economics, describes Hutt's influence on that particular body of scholarship. And finally, we asked Arthur Seldon, of the Institute of Economic Affairs in London, for some personal reminiscences of Hutt.

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An Appreciation of W. H. Hutt

by Arthur Seldon

The work of W. H. Hutt has always had a timeless quality that sharply distinguishes it from the short-view, econometrically-oriented analyses currently attempting to explain the passing scene. Throughout his career, Hutt has been analyzing the world as it is in its essentials. His universal, enduring economic analyses go below the surface of events.

I first met Hutt in the corridor outside my room at the London School of Economics. He had come to England in 1938, and sought me out, passing rooms occupied by Professors F. A. Hayek, Lionel Robbins, and Arnold Plant to reach the more humble room I shared (as a research assistant) with R. F. Fowler. I had graduated in 1937 and been influenced by his *Economists and the Public* (1936), which I had read as an undergraduate. It prompted me to write to him at Capetown with general enthusiasm for the enlightenment his book had provided, though mingled with some doubts and anxieties.

Bill must have satisfied my doubts about his argument, for they did not seem to linger. I've been an acolyte of Hutt since reading *The Theory of Collective Bargaining* (1930) which effectively destroyed the Fabian argument on labor's disadvantage in the bargaining process.

My relationship with Hutt grew stronger when I arrived at the Institute of Economic Affairs. We commissioned Bill to write an economic study of the color bar to explain *apartheid* in South Africa, where he had taught at the University of Capetown since 1928. The argument of the book, *The Economics of the Colour Bar* (1964) was that "similar origins"—restrictionism in the market by group interests—could be seen in all injustices of color, race, caste, and class. In arguing that the market would remove color prejudices because it was "color blind," he anticipated as a "white" the later analyses of two black economists, Thomas Sowell and Walter Williams. Hutt, along with Williams and Sowell, makes the case that efforts to secure justice for racial minorities through special privileges destroys the more humane method of judging people as individuals with qualities to reward.

Some years afterward, I again called

on Hutt, when the well worn sophistries of "labor's disadvantage" were repeated in the British debates on trade union power and its role in developing an incomes policy. I proposed to Bill that we republish *The Theory of Collective Bargaining* with a new introduction (1975) emphasizing the central argument and its continuing relevance despite the forty-five year interlude since the first edition.

The scholarly integrity of Hutt's work reminds us that the business of the economist should be economics. Yet because they are fallible human beings, economists would like to be heard, to be recognized, even to have influence. And it is a painful dilemma for the economist, asked to advise government, to choose between uncompromising scholarship and pragmatic benevolence.

In the early years of the IEA I therefore issued a stern injunction to authors to be entirely unconcerned with the "politically possible" or "politically impossible" and bluntly state the unpalatable conclusions to which their analyses led them. To emphasize the injunction, I invited Bill in 1971 to write a short book under the very title *Politically Impossible . . . ?* In it, he reviewed his teaching on monetary policy, social welfare, Keynesianism, and the trade unions, to demonstrate the damage to economics of caving in to the self-interested, myopic, and circular reasoning of politicians about what economic policies the public would accept.

Bill Hutt is one of a number of British economists whom, I am ashamed to say, Britain has not recognized officially as it has done others with much less claim to integrity, insight, and distinction. This list of neglected scholars would include Colin Clark, who pioneered a great deal of the work in national income statistics, and F.A. Hayek, who, although born in Austria, has been British *by choice* since 1938. And there are others. But as a fellow cockney, born in modest circumstances in the East End of London, I single out Hutt for special affection and reverence among the British economists whose work will live though their contemporaries did them no honor. Should not the Mont Pelerin Society establish its own private Honors List? □

An Interview With W.H. Hutt, Part One: The Keynesian Episode

Manhattan Report—Professor Hutt, you have been one of the earliest and most persistent critics of Keynesian theory and policy, right from the start. How did your analysis of economic problems differ from Keynes in the 1930's on the causes of and cures for the Great Depression?

W. H. Hutt—Keynes, and his followers, regarded unemployment as a problem of inadequate demand. I argued along the lines of traditional economic analysis, particularly the implications of Say's Law of Markets, that unemployment and depression were problems of pricing—defects in the pricing system. All resources can be employed, including labor, but only if their outputs are priced at market-clearing values. But weaknesses in the institutional framework of competition did not permit prices to do their work effectively in the 1920's and 1930's, and have (in spite of some enlightened market experiments in the opposite direction) survived to this day.

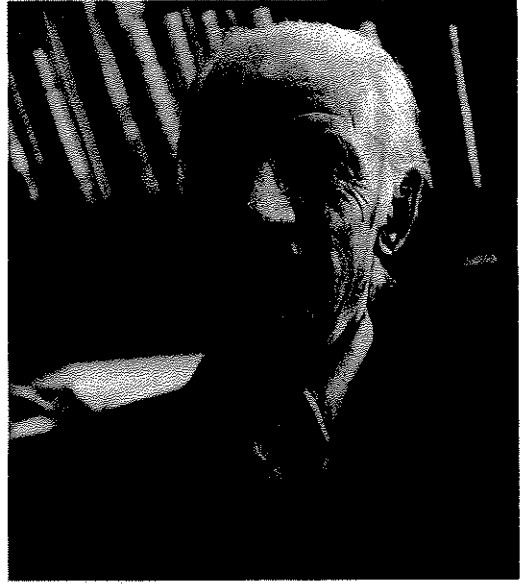
MR—Would you explain this a bit further?

W. H. Hutt—Let me begin by saying that, when unsold stocks pile up, when workers are laid off, and when factories and equipment stand idle, traditional, or what Keynes called "classical" economists argued that it was *not because* aggregate demand or purchasing power in the economy was inadequate, or too low, to employ all resources fully, including workers. In fact, according to Say's Law of Markets, about which I have written extensively, there is always sufficient "purchasing power" to buy back the product of industry. After all, the sum of payments for all the inputs made in the process of producing an output—income to wage-earners, payments to intermediate factors of production, etc.—is the source of the demand of all other outputs (except those outputs which compete directly with the first).

People have a garbled notion of Say's Law, for which we can thank Keynes. Say's Law of Markets is not that "supply creates its own demand." The supply of any particular good does not necessarily create a demand for that particular good—the supply of plums does not create a demand for plums. But the supply of plums constitutes demand for whatever the supplier desires to acquire *in exchange for the plums*. Thus, if I increase the supply of plums, I increase demand for everything which is not plums. *People who want to buy plums can buy them cheaper, with more disposable income left over to spend on other things*. What we now call the level of "aggregate demand" is actually nothing more than a different name for the overall level of output or "aggregate supply" received from an opposite angle. Increase output and you increase demand—and employment, also.

MR—Where then do the problems arise which lead to unemployment or "idle" resources?

W. H. Hutt—The problems arise not because de-



W.H. Hutt

mand is *too low*, but because the prices of some (or many) goods and the services of much labor, are priced *too high*. Because these prices are too high, *then* people do not have sufficient income to purchase the full flow of goods and services. Hence, unemployment emerges. As long as this condition persists, major elements in the aggregate flow of income—wages and profits—will be constricted.

The classical prescription was of two sorts. In the first place, the conditions for depression should be steered clear of, and that, primarily, by avoiding an unrestrained inflationary boom. Secondly, if one finds oneself in a depressed economy, price flexibility is crucial. Output prices and input prices—particularly wage-rates—must be allowed to find their full-employment, market-clearing levels. The conditions for the profitable production of goods must be restored. But as long as prices and wage-rates remain rigid at unsustainable, unprofitable levels, unemployment will persist and deepen.

At the policy level, government should not try to "stimulate" the economy through spending. This really amounts to a policy of trying to prop up or sustain an uneconomic set of price relationships, and to maintain resources in industries which for a variety of reasons should really be re-allocated elsewhere.

Positively, government policy should aim at removing monopolistic obstacles to the competitive determination of prices which are imposed through private concerns—boycotts, strike threats, physical intimidation, and the like. And of course government should not itself impose any new costs or prices for the benefit of private pressure groups.

"The Webbs never publicly renounced their very positive support of trade unions. Yet what no one knew at the time, but what has only recently come to light, is that the Webbs were not so naive in private."

—W. H. Hutt



Bettmann Archives

Beatrice and Sidney Webb

This "classical analysis," I should add, was not discredited by the condition of England after World War I. The tragedy is that it fit the situation all too well.

MR—What do you mean?

W. H. Hutt—England had persistent unemployment problems throughout the 1920's, well before the onset of the world-wide crisis.

In my judgment a crucial problem was rigidity in the labor market, due to a powerful trade union movement (much more potent there than in America). Also, as my economics teacher, the famous economist Edwin Cannan, explained, there was the "dole," which you here call unemployment compensation. Cannan argued in the 20's, and persistently in subsequent decades, that this dole was subsidizing the occupation of being unemployed. Of course, as a government measure, responsibility for this policy must also be assigned to the unions, via the Labour Party, which they very largely funded (and still fund today) through workers' union dues.

MR—Was Cannan the only one who criticized labor policy in the 1920's?

W. H. Hutt—No. In fact, most independent economists, including so-called "progressives," recognized the importance of wage policy in accounting for England's unemployment problem then.

None, however, had the courage to recommend an end to special union privileges, or to generous "doles." The myth that collective bargaining and the strike threat were necessary to

protect workers against exploitation was so strong that even those who knew better—who knew indeed that these powers had anti-social implications, particularly as causes of unemployment—didn't like to say so. In fact, that was a reason why I set out to correct serious misunderstanding on the point through my 1930 essay, *The Theory of Collective Bargaining*.

MR—So you disagree with the conventional view that the reason for Britain's economic problems in the 1920's was the return to the gold standard in 1925 at the pre-war ratio, putting deflationary pressure on the economy—and that going off the gold standard in September, 1931, was a positive, necessary act?

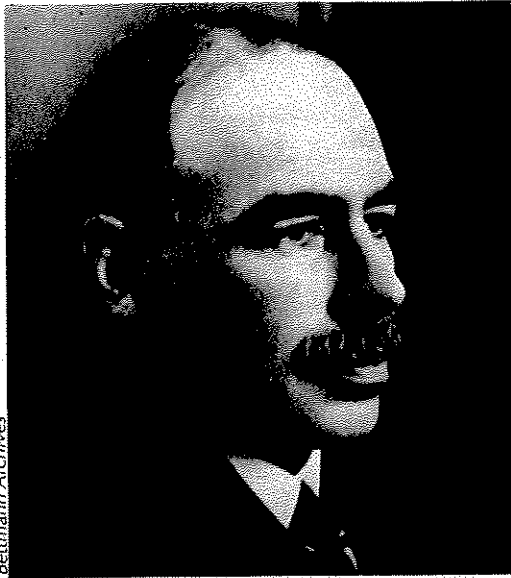
W. H. Hutt—On the contrary, the return to the gold standard was the fulfillment of a solemn war-time pledge, and it was an absolutely sound monetary policy as well, avoiding the inflationary propensity of modern government. It was not defective monetary policy which brought Britain to the disaster of September, 1931, but defective economic policy generally.

MR—Could you give us examples of people who knew better about the real causes of economic problems but chose to remain silent?

W. H. Hutt—By far, the most extraordinary example would be Sidney and Beatrice Webb, who were, throughout their illustrious careers, the virtual deans of the English Welfare State and the mixed economy, and the foremost champions of the trade unions.

The Webbs never publicly renounced their very positive support of trade unions. Yet what no

"Keynes gave governments exactly what they wanted; an elaborately argued justification for special interest spending."—W.H. Hutt



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John Maynard Keynes

one knew at the time, but what has only recently come to light, is that the Webbs were not so naive in private.

In the diaries of Beatrice Webb, there are the extraordinary entries of the crisis year, 1931. Sidney Webb, then Lord Passfield, was in the House of Lords. She knew that completely unreasonable inflexibility by the Trade Union Congress was "sabotaging British industry" (her words). Indeed, Sidney Webb called them "pigs"—but these were words which he apparently used only in private. In public, he was silent.

The enormous tragedy was that these most influential people were unable or unwilling to speak the hard truth about the need for price flexibility and competitive institutions.

MR—In this country, during the 1930's, we seemed to set out in the opposite direction, building rigidities into the price system. Business and agricultural cartels were instituted, and the labor unions of course were encouraged.

W. H. Hutt—There was an enormous amount of woeful ignorance, wishful thinking, and special pleading. Businessmen, farmers, and labor leaders believed, or at least represented themselves as believing, that by keeping their prices up, they would maintain their purchasing power and hence employment in other sectors. Exactly the opposite was the truth, of course. They were simply pricing themselves out of the market. The more generally this spirit spreads, the worse off everyone is.

MR—But Keynes and his followers, including union spokesmen, argued that the classical policy of wage and price cutting would be self-defeating. The argument was that cutting wages would only

reduce overall demand, putting pressure for yet further wage cuts and layoffs elsewhere.

W. H. Hutt—That became the standard view, to which Keynes subscribed—or at least pretended at times to accept. But it is wrong. No output is truly supplied until it is priced at a market-clearing rate.

People have difficulty in conceiving of the price of different forms of services. Cutting wage-rates which have been accepted by management under duress would raise the returns to capital as well as lower prices, leaving both producers and consumers with *more* real income to purchase output.

MR—Why do you say that Keynes "at least pretended" to hold this view?

W. H. Hutt—What makes the situation eternally puzzling is that Keynes seems to have been saying two things. One way of interpreting his ideas was that he said that price flexibility and "unemployment equilibrium" were compatible. But another way of looking at what he said was that given inflexible wages and prices, such as existed in England, the *only* way to revive the economy, without reforming the system, would be through government spending—inflation. The significance of this latter version is that it really accepts, in a sense, the classical analysis. After all, the increase in prices through an inflationary policy *does* accomplish a reduction in real wages. It does so, of course, in an abominably crude and often cruel fashion.

Obviously, the inflationary public policy response is also extremely popular, politically. It not only avoids the difficult problem of making the economy more competitive, but also promises the politicians enormous political gains by spending for special interests, but claiming it is in the general interest.

MR—Do you think this accounts for Keynes's popularity?

W. H. Hutt—Yes, and my conviction is that he knew it! Keynes gave governments exactly what they wanted; an elaborately argued justification for special interest spending.

MR—Do you feel that the concern with aggregate demand is bogus? Isn't it possible, at least in the short-run, to stimulate the economy with maybe a little bit of inflation—to "prime the pump"?

W. H. Hutt—It is possible, and insofar as a cut in interest rates *does* lead to idle resources actually contributing to output, it may tend to reduce the need for future inflation. But the contribution to aggregate real income from the policy has rarely been enough to compensate for the decline in the purchasing power of the *monetary unit*.

Moreover, this approach has extremely adverse long-term liabilities which I regard as manifesting themselves much sooner than the so-

called long-term, "when we are all dead."

Remember that "demand" policy implicitly refuses to disturb uneconomic cost-price relationships, but actually reduces real wage-rates and profit margins through an inflationary decline in the value of the monetary unit. Unfortunately, wage earners and businessmen will not forever fall prey to the "money illusion." They may respond by bidding up both wage-rates and other prices. To the extent they can, a new situation of unemployed laborers and unsold goods may arise. And resort to *more* spending, i.e., to a greater rate of inflation, will be necessary to "stimulate." As Jacob Viner said in his review of Keynes, "In a world organized in accordance with Keynes's specifications there would be a constant race between the printing press and the business agents of the trade unions."

MR—So you don't see much merit in spending

on this topic.

MR—Some have argued that the recent recession in America is different from those experienced since the Keynesian era, in that we are seeing an extraordinary amount of price and wage concessions by unions. Inflation has made spending not seem so palatable. It's been argued that this is really the most optimistic thing for our long-run economic health. What are your thoughts on this?

W. H. Hutt—Insofar as difficulties today have forced the leaders of unions to make concessions in labor costs, that is definitely a positive thing, a long-needed move in the right direction. It may be that they have seen the writing on the wall: Or maybe they realize that the best way to preserve what they have is to give in a little for the time being in order to get power later.

MR—Suppose you were the newly elected leader of a major union in a troubled industry. I know it

"Keynes, and his followers, regarded unemployment as a problem of inadequate demand. I argued along the lines of traditional economic analysis, particularly the implications of Say's Law of Markets, that unemployment and depression were problems of pricing—defects in the pricing system."

—W.H. Hutt

measures, like the "jobs bill" passed earlier this year by the U.S. Congress?

W. H. Hutt—You get jobs bills because they benefit politically visible segments of the citizenry. No one bothers to ask where the money to pay for these so-called jobs comes from, and what jobs are destroyed, or never come into existence, because the money taken from taxes to pay for these jobs cannot be spent elsewhere. You simply take \$6 billion away from the community's capital, which otherwise would have been spent in buying wage-multiplying assets, and squander them on relatively unproductive jobs, really doles, which get votes for the party in power.

MR—What would your own policy prescriptions be for periods of depression?

W. H. Hutt—The crucial goal should be the maintenance of economic institutions which permit price flexibility for both labor services and for goods. Cartels and monopolies and the like must not be tolerated. But otherwise, *laissez-faire* in respect to the price system merits protection.

Monetary policy should aim at maintaining the monetary unit at a steady, long-term value in terms of some index number of a collection of commodities. Rather than a steady increase in the money supply, I would much prefer an explicit policy of maintaining the purchasing power of the *monetary unit*. I think that this would eliminate business cycles. I have an almost completed book

sounds bizarre, but this is America, anything is possible. What would your policy be to advance the interests of all the members?

W. H. Hutt—I would go to the employers and ask, at what wage-rates do you think you could restore full employment within three months? I would take those figures, and present them to the rank-and-file. I'd argue that these wage-rates do not represent all that you can ever get, but what are necessary to get the business operating to full capacity. (At any suggested rate, I'd point out to the still-employed workers in the industry that it may not be in their interest to continue on as at present. Their jobs are at risk also; if not immediately, then in the future.) As our, and other industries expand, you will benefit as well. You must remember that your output is bought by other people, and until their outputs increase, they won't be able to demand the full amount of what you are producing. But the same thing works the other way. Until your outputs are larger, they won't be able to rely upon you buying their products. Every industry is buying a product of every other industry. I would attempt to explain this process, but I realize that people might say to me, that's all theory—baloney. I understand this reaction, given the fact that this analysis is so completely foreign to what people are led to believe. Nevertheless, I would try.

(Continued on page 10)

Interest Groups and the Economy: An Interview with Mancur Olson

Manhattan Report—In your recent book, *The Rise and Decline of Nations*, which has gotten wide acclaim, you discuss William Hutt's work on South Africa, *The Economics of the Colour Bar*. What contribution has Hutt made to our understanding of flexibility and rigidity in human society, and the effects of interest groups on economic efficiency?

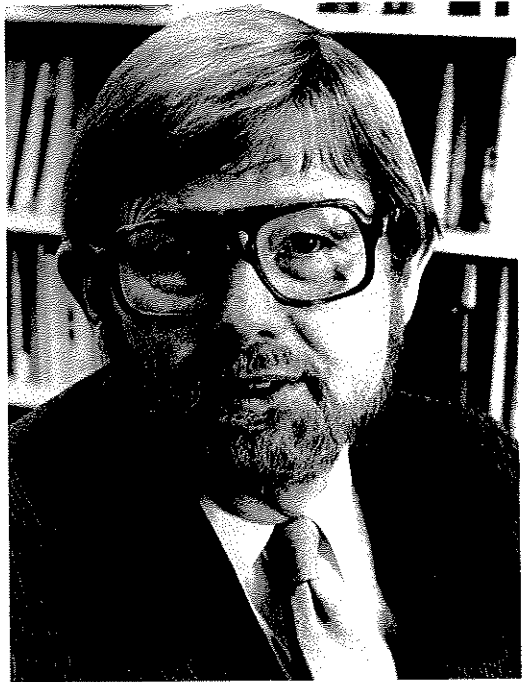
Mancur Olson—Hutt's most important contribution to our understanding of South Africa was his documentation of the point that the system of apartheid, rigid segregation, and white supremacy in that country did not exist from the beginnings of European settlement. He points out what I had never imagined, and what I suppose most others had not imagined; that in the early days of Dutch settlement, there was a surprising amount of interaction between the Dutch and the Africans and nothing like the present system of apartheid. Hutt shows that, starting in the early twentieth century, particularly after strikes in the gold and diamond mines, there emerged a pattern of cartelization of white laborers in unions whose object was the creation and preservation of a monopoly position by prohibiting and excluding employers from training blacks to be competitors with them. From this beginning, he shows how the apartheid system eventually emerged in full expression, after World War II.

MR—You used a similar analysis in your book to describe the caste system in India. Is there a simple relationship that we could draw between the two situations?

Mancur Olson—Yes, I think there is a relation, and it is the tendency for groups to organize to keep out competition—groups of firms and groups of workers. In societies like India and South Africa, which are very diverse racially, this has often led to what we might call cartelization along ethnic or racial lines. That type of cartelization can even lead to severe exclusions such as are suffered by the untouchable caste in India and by blacks in South Africa.

MR—Hutt argues that many of the policies with the most vicious racial results were actually advanced as "responsible" labor legislation. How can economists alert people to the dangers of well-meaning reforms?

Mancur Olson—Economists might remind everyone that not only firms but workers also have competitors. It's not at all surprising or unfamiliar to see a big firm worrying about its competitors and striving to get in a situation where it can avoid competition. But workers, too, have a similar interest in having fewer competitors. The advantage is higher wages for the group that succeeds in getting its competition excluded. Of course, the people who are excluded will then usually be worse off than they were before. We must take this into account



Mancur Olson

"I very much believe that we need to approach macroeconomics in a microeconomic fashion, building up the theory from an analysis of individual behavior and going on to an understanding of the economy as a whole."

—Mancur Olson

in assessing the significance of anti-competitive measures for human welfare.

MR—In your book, you demonstrate how price fixing is probably more efficient for the welfare of a specific group than an attempt to fix quantities directly. Hutt extends this analysis to a macroeconomic level. His theory of business cycles and depression, particularly as set forth in *The Theory of Idle Resources*, emphasizes price rigidity as caused by special interest groups. What do you think about that?

Mancur Olson—I haven't yet read Hutt's book, but soon will. It sounds as though it is resonant with my own book. I tried, in *The Rise and Decline of Nations*, to develop an argument that is probably related to Hutt's. I very much believe that we need to approach macroeconomics in a microeconomic fashion, building up the theory from an analysis of individual behavior and going on to an understanding of the economy as a whole. □

Hutt's Role in Economics: An Interview with James Buchanan

Manhattan Report—What do you feel are among William Hutt's more important contributions to economics?

James Buchanan—First of all, I think Professor Hutt has been one of the most underrated and neglected economists of this century. Unfortunately, he published some of his earlier works just about the same time as Keynes, saying, in one sense, the same things much better than Keynes did. He was, so to speak, in the shadow of Keynes. As a result, he was neglected for many years, but he has been getting more attention recently.

I think one of Hutt's best works was *Economists and the Public* [1936]. He devoted the whole book to a critically important question, namely, what is the economist's proper role in the formation of public policy? His argument was to the effect that economists really should not get involved in day-to-day policy advocacy, because it's almost impossible to immunize oneself from politics, in the pejorative sense of that word. He was arguing, much as my own teacher Frank Knight used to argue, that the role of the economist was to step back—deliberately to stay in the ivory tower—and to speak the truth about alternatives as he "sees" the truth. An economist should not worry about short-term considerations of political possibility but make statements on the basis of the best analysis that he has, and let it go at that.

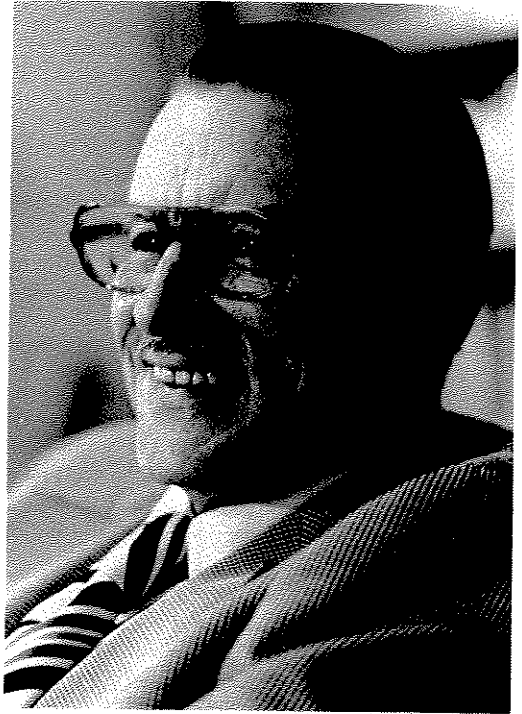
MR—You said that Hutt wrote in the "shadow of Keynes." Why was Keynes so much more influential than Hutt?

James Buchanan—Hutt's *The Theory of Idle Resources*, in my judgment, provides economists with a theory of unemployment superior to that of Keynes. Keynes, however, had a better platform from which to speak. For one thing, Hutt was writing from South Africa. More importantly, Keynes gave economists and politicians an argument that they wanted to hear. He provided an intellectual foundation for their gut reactions to a depression. Hutt was much more analytically sound, but the classical medicine was harder to accept. Moreover, the long-run dangers of Keynesian programs were just that—dangers of the long-run.

MR—What is the relationship of Hutt's work to the "Public Choice school" here in America, to which you have contributed so much?

James Buchanan—There are two aspects of that question I would like to address: Hutt's influence on Public Choice economics, and the influence of Public Choice economics on Hutt.

Hutt was trained at the London School of Economics before he went to South Africa. He was part of the group of economists who, I emphasized in my book *Cost and Choice* (1969), stressed the importance of subjective opportunity



James Buchanan

cost relating to choice. Hutt, for instance, was a teacher of G.F. Thirlby, who was an important theoretician. All the people in that group—Hayek, Coase, Robbins, Thirlby, and Wiseman—were intellectual colleagues of Hutt in the 1930's.

My own approach to Public Choice clearly comes, in part, out of the subjective cost tradition, so there is an intellectual lineage. That's the reason for my own interest in the work of the Austrian School.

From the other direction, I well remember how Hutt was impressed by the book that Gordon Tullock and I wrote, *The Calculus of Consent* (1962), because he saw how our emphasis on what we call the economic foundations of constitutions might lend itself to a solution of the South African dilemma. He wrote a long review article of our book in which he tried to apply our analysis to the South African situation, and talked about how a new constitutional framework for South Africa might resolve their long-standing problems. To this day, as far as I know, he's very much an advocate of the sort of constitutional reform approach we write about. So in that sense, there's a good deal of affinity between Hutt's position and my own.

MR—Are there any other significant contributions of Hutt in the area of political change of economic institutions?

James Buchanan—Yes. I would like to discuss one of Hutt's books which is very important but not well known. I was very much influenced by the

"I have long struggled with this issue—how to get groups with a vested interest in the status quo to accept changes in the status quo."

—James Buchanan

work of Knut Wicksell, particularly his work on public finance and constitutional reform. Wicksell understood that if you expect to make progress, you have to change the rules—but if you're going to get people to change the rules, you have to work out schemes so that the changes benefit these people, or at least minimize the harm they will suffer. I have long struggled with this issue—how to get groups with a vested interest in the status quo to accept changes in the status quo. Then, probably in the 1950's or early 1960's, Hayek told me to look at a book by Bill Hutt that was published in the middle of World War II, called *A Plan for Reconstruction* (1943).

The book was very hard to find. It was published in London in 1943 on very bad paper, due to the wartime scarcity. It probably didn't sell more than 200 or 300 copies, but it is really an amazing book in many respects. Hutt was addressing the question I had been asking, and addressing it with

great cogency; indeed, his own work ties in quite closely with Mancur Olson's. Hutt argued that Great Britain suffered mightily in the 1920's and 1930's from inflexible institutions, particularly its trade union movement. Given a national emergency—a war and a mobilized nation—he asked if institutions could be modified to prevent the country from slipping back into the old rigidities. He said yes. His plan for reconstruction was to work out a scheme of compensation to "buy out" these monopolies. Essentially, to give them what was necessary to make them give up restrictions and then start off fresh. I find this a very exciting idea. It certainly seems less costly than what Mancur Olson explains was the way the German and the Japanese societies were reconstructed; i.e. through wartime destruction. Hutt's proposals fell, of course, on deaf ears, in England. But maybe they ought to think about them more seriously now. And perhaps, so should we. □

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Hutt Interview, Part Two: The South African Economy

MR—You spent most of your professional life teaching and writing in South Africa. How did you come to leave England for South Africa?

W. H. Hutt—I left Britain in February, 1928, for South Africa in order to begin an academic life which suddenly appeared to be most important for me. I chose the University of Capetown solely because the Professor of Commerce there, Sir Arnold Plant (he had not been knighted at that time), had become interested in what I was writing.

MR—What was the racial situation at that time in society at large? Were Africans allowed to study at any university?

W. H. Hutt—There were students of all colors at the university. This number grew year by year. We might have resolved most of the problems had it not been for the socio-economic structure which was imposed on us by the government which represented only the whites.

MR—South Africa has a capitalistic economy, and an enormous problem with the disadvantaged majority, consisting of "mixed bloods"—the "coloreds"—and the black Africans. Thus most people here and around the world blame "apartheid" on capitalism. You have, however, written a book in which you argue that this view is completely mistaken. Could you explain?

W. H. Hutt—I would state firmly and unequivocally that the economic injustices arose, not

from the workings of the free, competitive economy, but from government intervention in, and regulation of, the labor market. And these interventions came primarily at the behest of so-called "progressive" forces, the white unions and their socialistic intellectual allies. Secondly, what Americans would call "Jim Crow" laws—forced social separation of the races—evolved along with the withdrawal of British imperial power from the internal control of South African affairs.

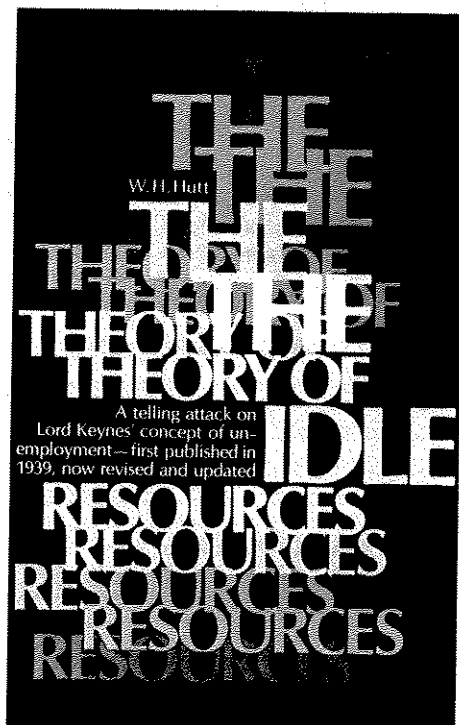
MR—What kinds of labor regulations rigged the market against the blacks and the coloreds?

W. H. Hutt—The origins of the regulations, which I covered in my book on South Africa, arose very directly out of the rise of militant white labor unions in the mines, and a series of violent strikes in the first decade of the century. Among other grievances, these unions were dead set against competition from the black Africans and the Asians, whom they saw as a threat to their privileged economic position. You might be interested to know that there is evidence these unions were inspired, to some extent, by the syndicalistic IWW in America.

At any rate, to make a long and complicated story short, there were two types of anti-black economic legislation which evolved. The first kind, the more well known, were the "Colour Bar" Acts, which established arbitrary ratios—actually quotas—between different categories of

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The South African Economy

laborers, defined by race or otherwise, with stipulated, fixed wage-rates. In more recent times, there have also been job reservation policies, designed explicitly to exclude non-whites.

Actually, the direct discrimination by color bars has not in my judgment been the most important obstacle to African progress. Far more pernicious was the adoption, in the 1920's, of the so-called "rate for the job," also known as "equal pay for equal work." Work has to be paid at a certain rate and no one may bid it down.

MR—Isn't it only fair that people who do the same job are paid the same wages?

W. H. Hutt—Yes, if the work is the same in every way! Equal pay for equal work is a result of a freely competitive, non-discriminatory market, but its legislative imposture is no way of achieving such a market. And the "rate for the job" is all the more pernicious because, on its face, it isn't discriminatory.

The standard rate legislation very largely prevented non-whites from getting many jobs, other than those at the bottom of the occupational ladder, because the productivity of the unskilled, uneducated coloreds and Africans was below that of the whites.

MR—But what about the direct and explicit social segregationist laws—such as preventing "mixing" of the races in public accommodations, inter-marriage, and the like?

W. H. Hutt—Segregationist legislation on the "apartheid" (separateness) model is chiefly of historically recent vintage—indeed, introduced on a wide scale only on the accession of the National Party in 1948.

The grounds for this were laid in the 1930's, when the British, through the Statute of Westminster (1931)—sought to appease African nationalism, by removing themselves from the constitutional control of South Africa.

I tried to warn people in the 1930's that the franchise protections which the British had guaranteed to the colonial population were in grave jeopardy. Alas, my prophecy came true in 1948, when the voting rights of non-whites began to be abridged. Soon thereafter apartheid legislation began.

MR—Is a bloodless solution to the South African problem possible? Can the country survive a race calamity and become a pluralistic, multiracial society that will protect all individual rights?

W. H. Hutt—Economically, the economy must be freed up. Politically, the franchise must be extended with proportional representation to protect the white minority. Socially, legal segregation must be allowed to die. People should be allowed—not forced to, but allowed—to associate with whom they choose.

MR—What about the United States? Many in this country demand that American corporations disinvest from South Africa, and favor boycotts and other economic sanctions. Do you feel these measures will improve the lot of the non-white majority and force change within South Africa?

W. H. Hutt—No. The brunt of the hurt will fall upon the very people who need to be helped; but it will be unjust to all, including those who have devoted their lives to the alleviation or dissolution of racial injustice. □

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