

# W. H. Hutt and the Conceptualization of Consumers' Sovereignty

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## Abstract

This article examines the meaning of consumers' sovereignty in the interwar thought of the economist William Harold Hutt. For Hutt, consumers' sovereignty was an ideal, a norm against which economists could assess different economic systems. It connected the value of individual freedom, the commitment to a market society and an appeal to a liberal democracy. By coining the expression of consumers' sovereignty, Hutt operated a creative redescription of the Millian idea of individual sovereignty which reflected the rise of the figure of the consumer in the public space. Hutt's vision had been forged by the teaching he received at the London School of Economics and his involvement in the Individualist movement in the 1920s.

**Keywords:** consumers' sovereignty, consumer's sovereignty, W. H. Hutt, liberalism, neoliberalism, London School of Economics

**JEL Codes:** B20, P10, P20, A12

## Introduction

In 1986, Edwin J. Feulner Jr., founder of the American think tank Heritage Foundation and future president of the Mont Pelerin Society (MPS), remarked that William Harold Hutt had a 'great influence' on 'those of us who are working daily to undo the shackles of government, whether in Washington for the Reagan Administration, [or] in London for the Thatcher Government'. In the *Wall Street Journal*, Thomas Hazlett had argued three years before that Hutt was perhaps 'the most important economist of this [20th] century'.<sup>1</sup>

In spite of these friendly accolades, Hutt remained an obscure economist to his death in 1988. Born in Hackney, London, in 1899, he spent most of his career as professor of Commerce at the University of Cape Town in South Africa. James M. Buchanan

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<sup>1</sup>*The Wall Street Journal*, 28 December 1983, p. 12. A copy of this article is kept in the W. H. Hutt Papers at the Hoover Institution. Box 18.

(1988, p. 6) claimed that ‘Hutt’s introduction of consumers’ sovereignty in and of itself should warrant him a significant place in the history of economic terms in this century.’ Hutt’s name does appear in the recent historiographic contributions on the origins of neoliberalism, but no systematic analysis of his idiosyncratic position within the first generation of neoliberal thinkers has been conducted so far.<sup>2</sup> This paper focuses on Hutt’s conception of consumers’ sovereignty as a key to his interwar vision for the renewal of liberalism.

In his book *Economists and the Public: A Study of Competition and Opinion* (1936), Hutt defined consumers’ sovereignty as a potential feature of the social environment: ‘The consumer is sovereign when, in his role of citizen, he has not delegated to political institutions for authoritarian use the power which he can exercise socially through his power to demand (or to refrain from demanding).’ (Hutt, 1936, p. 257) For Hutt, absolute consumers’ sovereignty was an ideal, a norm against which economists could assess different economic systems. He argued that it was an implicit norm in classical, as well as in modern ‘orthodox’ economic thinking (Hutt, 1934a, p. 14). Yet, Hutt’s conceptual creativity becomes apparent when we look at the academic reception of his book. The reviewer for *The Economic Journal* noted: ‘I have been unable to understand what this [consumers’ sovereignty] means’ (Fraser, 1937). Writing in the *Journal of Political Economy*, Jacob Viner indicated that ‘the author’s major thesis would have gained in apparent consistency and in persuasiveness if it had been couched throughout in the familiar terms of ‘individual’ sovereignty instead of in terms of ‘consumers’ sovereignty’ (Viner, 1938).<sup>3</sup>

The concept of consumers’ sovereignty is interesting in many regards. First, because it eventually became a widespread assumption in modern economic theory. Second, because the hypothesis that consumers are sovereign over their choices was hotly contested by postwar critiques of consumption society (Olsen, 2019, pp. 98-102, 117-118, 150-156). But most important of all, because it is a cornerstone of the interwar neoliberal strand of liberalism developed at the London School of Economics. It elegantly connects the liberal value of individual freedom, the commitment to a market society and an appeal to democracy. It does so by drawing an analogy between voting in a democracy and buying goods in a market. By coining the expression of consumers’ sovereignty, Hutt operated a creative redescription of the Millian idea of individual sovereignty which

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<sup>2</sup>Mentions of Hutt appear, for instance, in Tribe (2009); Jackson (2010). The few scholarly works on Hutt’s thinking acknowledge that he coined the concept of consumers’ sovereignty (Samuels, 1990; Persky, 1993a,b; Levy and Peart, 2005; Trentmann, 2006; Schwarzkopf, 2011a,b; Jackson, 2015; Slobodian, 2018; Olsen, 2019).

<sup>3</sup>On the reception of Hutt’s book, see also Olsen (2019, p. 63 n126). Hutt conserved clippings of critical newspaper reviews from *The Star* and *The Spectator*, Hutt Papers, Box 23.

reflected the rise of the figure of the consumer in the public space.

During the last decades of his life, Hutt self-identified as a classical liberal economist. In his youth, Hutt was socialized in the Individualist movement which saw itself as a direct heir of the Manchester School. Yet, for Hutt, just as for his fellow MPS members, the identification as classical liberal hides the important points of divergence between their twentieth-century vision and the nineteenth-century liberal doctrine (Mirowski, 2009, p. 427). As a doctrine, neoliberalism was initiated at the Walter Lippman Colloquium (WLC) held in Paris in August 1938 (Reinhoudt and Audier, 2018, p. 6). The ideas promoted by these cosmopolitan men took shape throughout the 1920s and 1930s. Hutt did not participate in the WLC, but two months later Lippmann wrote to Hutt that he wished him to be a correspondent of their small group of liberals. The organizer of the Colloquium later confirmed to Hutt: ‘We count you as one of us’.<sup>4</sup>

Interwar neoliberalism, especially in Britain, rested on a critique of the interpretation of nineteenth century *laissez-faire*, as well as on a rejection of the interventionism of New Liberalism (Stedman Jones, 2012, p. 3). Just as other neoliberal thinkers, Hutt rejected the naturalistic vision of classical liberals. He was well aware that a social order structured by competition needed to be enforced by a strong state.<sup>5</sup> Within the broader neoliberal thought collective, Hutt deserves specific attention for the originality of the sources upon which he drew to build his political economy. His years spent at the London School of Economics formed the matrix of his thinking for decades. While sharing many ideas with his French, German, Austrian and American fellow neoliberals, Hutt’s writing helps us to highlight the British intellectual roots of neoliberalism.

## 1 The 1920s. Hutt’s Youth

### 1.1 LSE

William Harold Hutt was born in a lower-middle-class family in South Hackney in 1899. He was the eldest son of William Hutt, a typesetter. The young William received a free education at Lauriston Road School and at South Hackney Central School. In 1917, he trained as a pilot in the Royal Flying Corps, but he never saw active service.

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<sup>4</sup>Louis Rougier to Hutt, 29 December 1938. Hutt Papers, Box 67. Lippmann to Hutt, 28 October 1938. Hutt Papers, Box 18.

<sup>5</sup>On the anti-democratic nature of some strands of neoliberalism, see Cornelissen (2017). On the centrality of competition in the neoliberal doctrine, see Foucault (2008, pp. 118 ff.); Amable (2011); Davies (2015); Olsen (2017).

After the war, Hutt joined the London School of Economics, studying towards the newly established Bachelor of Commerce. The vocational degree in commerce started in 1919 with a high enrolment from former servicemen. Compared to the BSc (Econ), it was a more applied degree, but it offered the possibility to take as many (few) economic subjects (Tribe, Forthcoming). After completing the four-year degree, Hutt attended lectures as an occasional student for at least three more years. Hutt attended lectures on Economic history by Lilian Knowles, on Money by Herbert S. Foxwell, on Public Finance by Hugh Dalton, on Banking and Finance by Theodore Gregory. Nonetheless, the ‘leading influence’ on Hutt during his time at LSE was Edwin Cannan.<sup>6</sup> A conservative classical economist, Cannan also had a strong intellectual impact on some of Hutt’s classmates such as Arnold Plant, Lionel Robbins, and Frederic Benham. As Robbins would later say about his former teacher: ‘At L.S.E. and within its sphere of contacts, his ascendancy was paramount. We revered him.’ (Robbins, quoted by Burgin, 2012, p. 28).

A specialist on classical economics, Cannan argued that one of the important contributions of Adam Smith had been to highlight the fact that ‘consumption is the sole end and purpose of all production’ (Smith, 1776, quoted by Cannan, 1926, p. 126). Hutt had absorbed the message. In his obituary of Cannan, he remarked that his teacher had ‘contributed to that refinement of traditional thought which has left us with the most powerful legacy that constitutes modern orthodoxy’ (Hutt, 1935). Cannan’s political views were at odds with many other towering figures at LSE. The school had been founded in 1895 by Sidney and Beatrice Webb, Graham Wallas, and G. Bernard Shaw, all Fabian socialists. In his first years at LSE, Hutt read the Webbs’s *Industrial Democracy* (1897), but he later became convinced by Knowles of the benefits of the Industrial Revolution for the working class. In his first academic paper, Hutt (1926) argued that the factory system had been beneficial to the poor and that factory legislation had not been necessary to remove the worst cases of abuses. Hutt’s first book (1930) was a frontal attack on the economic role of trade unions and the Webb’s theory of collective bargaining. He contended that the gains to the workers from combination were achieved by ‘exploiting’ the consumers (p. 143; see also Jackson, 2015).

Other figures on the left at LSE included the leading New Liberal theorist Leonard Hobhouse who held the chair of sociology until his death in 1929. The political theorist Harold Laski started lecturing at LSE in 1920 and was promoted to a chair in 1926

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<sup>6</sup>For biographical information on Hutt, see his unpublished ‘Autobiography’ dated 10 August 1984 in the Hutt Papers, Box 11; As well as an updated manuscript titled ‘Memoirs’, undated but likely written between 1985 and 1988, Box 70. Hutt also acknowledged the influence of Cannan on his thinking in a letter to Apel, 20 July 1958, reproduced in Apel (1961).

(Dahrendorf, 1995, p. 225). A socialist, Laski was a key adviser to the rising Labour Party. Hutt attended Laski's lectures and found much with which to disagree, but perhaps surprisingly, he also borrowed some ideas from him (on which more below). Throughout the 1920s, the Christian socialist R. H. Tawney lectured on economic history (on which see Thompson, 2018). In a review of *Equality* (1931), Hutt considered Tawney, 'the most disappointing social philosopher of the present age'. He accused the socialist historian of misunderstanding the nature of economic phenomena. Tawney failed to grasp that competition was the best means to reduce inequalities. Anticipating many themes of his 1936 book, Hutt blamed Tawney for defending an unrestricted freedom of contract which could lead to labour combinations. By accusing employers of being responsible for inequalities, Tawney also failed to see that in a competitive society, employers are 'the servants of the people'. Ultimately, the productive process was controlled by the community which was composed principally of poor people, according to Hutt.<sup>7</sup>

In sum, LSE was the formative matrix for Hutt's thinking, providing him with both positive intellectual sources and enemies to refute. As he would put it decades later: 'The further I delved into the operations of the actual world, the more confident I became of ideas which I had originally acquired in the three years from 1920 to 1923'.<sup>8</sup>

## 1.2 The Individualist Movement

Upon graduation, Hutt found a job as a personal assistant to the publisher Ernest Benn in 1924. Coming from a wealthy family of publishers who were active in progressive politics, Benn became an ardent defender of political and economic individualism after a visit to the United States in 1921 (Abel and Brodie, 2004). Following the publication in 1925 of his *Confessions of a Capitalist*, Benn became the public face of 'Manchester School-style radical liberalism' (Cockett, 1995, p. 69). Benn argued that 'the profit-making system is the only one under which the consumer can be perfectly sure of obtaining the article he wants' (Benn, 1925, p. 113).<sup>9</sup> In a series of letters to *The Times* written in 1925, Benn made recommendations of economic books to counter the burgeoning socialist literature, especially that issued by the Fabian Society. He lamented that 'Capitalism is almost without a literature' and argued for 'a return to individu-

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<sup>7</sup>'Equality: By R. H. Tawney.' Undated manuscript. I have not been able to assess whether Hutt's review has been published or not. Hutt Papers, Box 47.

<sup>8</sup>'Memoirs', p. 44.

<sup>9</sup>Hutt reviewed the typescripts of the book (Memoirs, p. 46).

alism’, to a lost ‘sense of personal responsibility’ in times of increasing governmental roles. For Benn, ‘in the ideal state of affairs, no one would record a vote in an election until he or she had read the eleven volumes of Jeremy Bentham and the whole of the works of John Stuart Mill, Herbert Spencer, and Frédéric Bastiat, as well as Morley’s ‘Life of Cobden.’ (Benn, 1927, p. 13).

Herbert Spencer had been the leading advocate of individualism in the late Victorian period. Yet, individualism had already by then lost its radicalism and had become a defence of the status quo (Taylor, 1992, p. 5). In his *Confessions*, Benn quoted extensively from Spencer’s ‘The Coming of Slavery’, an essay reprinted in *The Man versus the State* (1884). Well before Hayek wrote *The Road to Serfdom*, Spencer used a slippery slope argument: under the influence of communistic theories, the public was gradually assuming that the government should take responsibility for any social problem. Yet, ‘all socialism involved slavery’, claimed Spencer (1884, p. 34). He warned of the rise of a new ‘despotism’ coming from populist politics.

Spencer failed to attract many supporters to his cause. Under the leadership of William Gladstone, the British Liberal Party had been united for decades around the idea of free trade. Yet, by the end of the century, classical liberalism was in decline. The Third Reform Act of 1884 extended the franchise in the countryside including the Irish Catholics. In the next general election, the Irish Nationalists held the balance of power in the House of Commons and pressured Gladstone to propose the (first) Home Rule Bill in 1886. Liberal Imperialists like Joseph Chamberlain opposed the bill which led to a schism in the party. The void created in the party by the departure of Whigs and some Radicals to the Unionist camp was partly filled by a wave of Radical liberals from the newly created Fabian Society. Although on the left fringe of the Liberal family, Fabians were not Marxists. They wanted to ‘bridge the gap between radicalism and socialism’ through piecemeal reforms (McBriar, 1962, p. 25).

The rigid opposition constructed by Spencer (1884) between Individualism and Socialism was rooted in mid-century liberalism and was out of touch with the challenges of the late nineteenth century and the evolution of liberalism (Taylor, 1992, p. viii). In Oxford, T. H. Green had preached an idealist form of social liberalism. In Cambridge, Henry Sidgwick and Alfred Marshall were cautiously willing to accept increased government intervention to address the social question. Replying to Spencer and his followers, Sidgwick argued that in a purely individualistic system, individual interests did not lead to actions that were always conducive of the common interest of all. Rejecting collectivism, Sidgwick was nonetheless in favour of ‘socialistic interventions’ to ‘mitigate’ the ‘harshest inequalities’ of income (Sidgwick, 1897, p. 160).

The general election of 1906 saw the return of the Liberal Party in government after a decade of conservative and Liberal Unionists coalition government, but by then the party had taken a visible left turn to more interventionist policies. The share of the electorate who supported the Labour Party grew over the first half of the century as a direct consequence of the extension of the franchise. Liberals were forced to reconsider their vision of society. In the decade before the Great War, under the leadership of Herbert Henry Asquith, David Lloyd George, and Winston Churchill, the New Liberals put in place a system of old-age pensions, unemployment insurance, progressive taxation, and free school meals (Backhouse et al., 2017, p. 27).

These new provisions led to the establishment of new bureaucracies, which grew even more during WWI, along with tax rates. For some Liberals, the state had grown too big, and too fast. In 1920, Hobhouse remarked: ‘it is well within the bounds of possibility that the reaction from war politics will ultimately produce a new liberty movement, a revised twentieth-century Cobdenism which may look back to Spencer as one of its progenitors’ (cited by Freedon, 1986, p. 29).

In 1922, the Conservatives were back in power. The Liberal Party was torn between Lloyd George and Asquith. The next year, Labour even formed a minority government with the support of the Liberals. Premier Ramsey MacDonald normalised relationships with Soviet Russia. Populist newspapers circulated stories of a Red alliance with the Soviets, which eventually brought down the government in 1924 (Renwick, 2017, p. 152 ff.). Yet, MacDonald was not a Marxist or a Leninist. A long time Fabian, he favoured gradual change toward a mild form of socialism. He had argued that socialism was the next stage after liberalism that retained what was good of liberalism (MacDonald, 1905, p. 165).

By the time Hutt started working for Sir Ernest Benn in 1924, the Liberal Party was no longer a major political force in the country. Its relative decline was due to internal tensions that had weakened the party since the Great War, as well as to the extension of the franchise. The New Liberal leadership had defended a more progressive agenda to attend to the interest of the newly enfranchised, but the party was eventually overtaken on the left by the Labour Party with its strong footing in local politics (see Tanner, 1990). Even Baldwin’s Tories had to continue in the rest of the 1920s the implementation of social welfare policies that had been the mark of New Liberals. Stripped of their political power, Old liberals must have been shocked by the transformation of their party in the first quarter of the century, not the least by alliances with overtly socialist politicians.

Benn fought the battle of ideas in the public space. Following his economic book

recommendations to *The Times*, he founded The Individualist Bookshop Ltd in 1926. Most of the directors were former Liberal politicians, some of them of advanced age and probably disillusioned by the turn taken by their party.<sup>10</sup> Hutt assumed the position of Manager of the bookshop which opened its door on Charing Cross Road, four blocks from the successful Communist Bookshop on King Street. In 1927, the Bookshop published an annotated bibliography on *The Philosophy of Individualism*, which extended on the suggestions made by Benn two years earlier. The unsigned text was prepared under the supervision of Francis W. Hirst a free trade publicist and former editor of *The Economist*. A large share of the book reviews were written by Hutt. The pamphlet defined individualism as a worldview opposed to collectivism, socialism, communism, and other means of restricting freedom.<sup>11</sup>

In December 1927, Hutt stumbled upon a job advert in a newspaper for a position of senior lecturer at the University of Cape Town in South Africa. Immediately writing to Cannan to ask for a recommendation letter, Hutt stated he had not considered an academic position before. He wanted to make a contribution to economics and he would be delighted to work under the supervision of his friend and former classmate, Arnold Plant, then professor of commerce in Cape Town. Hutt argued that although he ‘believe[d] whole-heartedly’ in individualism, he considered he could better serve the cause as a ‘critic’ rather than in his present position of ‘propagandist’.<sup>12</sup> Hutt was hired in February 1928. He sailed for Cape Town the next month.

By the end of the decade, we get a clear sense of the orientation of Hutt’s thinking from his LSE years, as well as from his work for the Individualist movement. None of these environments was properly neoliberal. Both Cannan and Benn were defending a form of classical liberalism, one that was out of touch with the popular sentiment at the beginning of the twentieth century. Nonetheless, I disagree with Taylor (2015, p. 46) that there is no direct line of descent between Herbert Spencer and late twentieth century neoliberalism in Britain. In fact, this paper aims at bridging part of this gap. Still, contrary to what Hans-Eberhard Apel (1961) argued, Cannan cannot be considered as the founder of the neoliberal school at LSE. Cannan had a strong influence,

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<sup>10</sup>Sir Hugh Bell, Harold Cox, Percy A. Molteno, William W. Paine, Henry H. Vivian, Herbert S. Leon, and Lord Alfred Emmott also served as directors. See the Incorporation document of the Individualist Bookshop Ltd. in the Hutt Papers, Box 47. See also Hutt to Cannan, 28 December 1927, Cannan Papers, Cannan/1029/.

<sup>11</sup>See Hutt. *Memoirs*, p. 51. As well as *The Philosophy of Individualism. A bibliography With an Introduction Essay on Individualism in Politics and Economics*. London: The Individualist Bookshop Ltd. 1927.

<sup>12</sup>Hutt to E. Cannan, 28 December 1927, Correspondence of Edwin Cannan, LSE Library Archives, Cannan/1029/. See Also a similar letter from Hutt to Plant, 30 December 1927. Plant Papers, Plant/441/

but he was a classical liberal (see Tribe, 2018). It was to the next generation to propose a neo-liberal response to the political and economic challenges of the interwar period.

## 2 The Context of the 1930s

### 2.1 The rise of the consumer

Contrary to a common view, consumer society was not born in the postwar period. It started gradually in the eighteenth century, but reached new heights in the first half of the twentieth century with the diffusion of mass-produced standardized goods (Trentmann, 2016, pp. 3, 273 ff.). Yet, as Trentmann (2006, p. 23) argued, in the eighteenth and nineteenth centuries, ‘meaning and practices of consumption remained embedded in older social identities defined by craft, land, trade, and products’. Already at the end of the nineteenth century, in Britain, consumers as ratepayers or taxpayers were invoked in debates on management of public utilities like gas and water. The identity of the consumer and the place of consumers in the public space became predominant in the early years of the twentieth century. In Edwardian Britain, Free traders fought tariffs in the name of the interest of urban consumers in low prices. Thus, the identity of the consumer took shape in the early twentieth century not as the abstract category of the rational choice maximizer, but as a politically active citizen demanding cheap goods and the regulation of prices.

In spite of Adam Smith’s remark quoted by Edwin Cannan in 1926, most economists had not been very interested in consumers (Winch, 2005). Classical political economy focused mostly on trade, production and labour. Neoclassical economists like Jevons and Menger did pay more attention to the construction of market demand from individual needs, but they did not put consumers at the centre of their discourse. There were obvious exceptions. Bastiat, for one, had argued that competition between the capitalists led to a decrease in the price of products which was ‘a gratuitous gain for the consumer, that is for mankind [l’humanité]’ (Bastiat, 1850). Unsurprisingly, Benn quoted at length Bastiat, and Hutt engaged with him in a critical, yet friendly way.

The 1930s also saw the development of market research. On both sides of the Atlantic, marketers studied the response of consumers to advertisement campaigns through focus groups, consumer juries, and panel survey, generating knowledge on consumer behaviour. As marketing expenses were often criticized as wasteful, marketing agencies defended their role by appealing to the democratic nature of their work (Schwarzkopf, 2011a). They claimed their studies revealed what people truly wanted.

Just as people express their preferences in voting, market research would help firms produce goods and services tailored to the preferences of consumers. Hutt's invocation of consumers' interest in the 1930s was thus very much in the spirit of the times. Still, marketers resorted to the analogy between market and democratic choices in order to legitimize their role within the capitalist system, whereas Hutt wanted to convince the public that markets were the best mechanism of social coordination to guarantee individual freedom, equality and peace. And in fact, Hutt (1936, p. 289 n1) was sceptical of the social usefulness of business expenditures on 'persuasive advertisement'.

Consumers became a focal point of other economists in the 1920s and 1930s. It was not especially neoliberal to appeal to consumers. J.M. Keynes, whose *General Theory* Hutt would oppose all his life, gave pride of place to consumers demand. Even Beatrice Webb had argued that government resembled a large 'association of consumers', like a cooperative (Webb, 1928, p. 4). Already in their seminal *Industrial Democracy*, Beatrice and Sidney Webb had no problem acknowledging that 'to obtain for the community the maximum satisfaction it is essential that the needs and desires of the consumers should be the main factor in determining the commodities and services to be produced.' (Webb and Webb, 1897, Vol. II, p. 818). Where they disagreed with the classical liberal argument for free markets was on the organization of production. In a capitalist system, production to satisfy the demands of consumers could lead to the exploitation of workers. The Webbs argued that an increasing share of the provision of goods should fall to fairly treated salaried agents of cooperatives, to municipalities and to the state.

The originality of the position of Hutt was to argue that consumers would be best served in a competitive market society. Both progressive liberals and neoliberals wished for and predicted a refinement of democracy, but they disagreed on what democracy meant. For instance, what Beatrice Webb predicted for Britain was an increase in trade unions, organized consumer cooperation, local government responsibilities and national public enterprises (Webb, 1928, p. 32).

## 2.2 The Analogy Between Voting and Buying

Two years after Hutt had arrived in Cape Town, Arnold Plant went back to LSE as Professor of Commerce. Hutt assumed the interim professorship in Cape Town and was eventually confirmed in the position in 1931.<sup>13</sup> In the meantime, at LSE, Lionel Robbins was appointed to a new chair of economics, becoming de facto Head of the Economics Department (Howson, 2011, p. 163). For many years, Hutt kept coming

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<sup>13</sup>Hutt. *Memoirs*, p. 72.

back to London and to LSE over the long Christmas breaks. For instance, when Hayek arrived in London as visiting professor in 1931, Robbins asked Hutt to greet him at LSE and to bring him to Robbins's place for dinner.<sup>14</sup>

Hutt later remarked that he had used the concept of consumers' sovereignty in a privately circulated manuscript in 1931 (Hutt, 1940). By coining the ingenious expression of consumers' sovereignty, Hutt was stepping into a long-standing analogy between the virtues of market allocation and democracy. Persky (1993b) identified the first significant case of this analogy in the American economist Frank A. Fetter's *Principles of Economics*. Fetter suggested that 'Every buyer then determines in some degree the direction of industry. The market is a democracy where every penny gives a right of vote.' (Fetter, 1905, p. 212). Hutt did not quote this passage, but he referred elsewhere to Fetter's book.

In his analysis of the causes of the Great Depression, Robbins attacked planning and argued that market bidding was like 'a continuous election with proportional representation' (Robbins, 1934, p. 149). Both mechanisms register the preferences of individuals. In this analogy, Robbins was inspired by a previous use of the metaphor by Ludwig von Mises in *Gemeinwirtschaft* (1922). Robbins was very enthusiastic about Mises' book which he started to translate in 1924. It was part of the recommended readings for the 1932-1933 economics seminar convened by Robbins, Hayek, and Plant at LSE (Howson 2011, pp. 135, 210; Howson 2005).

One of Mises' goals was to attack the argument put forward by the Webbs according to which capitalism was characterized by the domination of rich owners over their fellow citizens. Mises turned the claim upside down and asserted that the capitalist system served the interests of consumers. There was no need to create syndicalist institutions to achieve democracy in the economy since an order based on private ownership of the means of production already achieved the ultimate objective of democracy, that is peace. Referring to Fetter's analogy, Mises argued:

Free competition does all that is needed. All production must bend to the consumers' will. From the moment it fails to conform to the consumers' demands it becomes unprofitable. [...] The lord of production is the consumer. From this point of view the capitalist society is a democracy in which every penny represents a ballot paper. It is a democracy with an imperative and immediately revocable mandate to its deputies. It is a consumers' democracy. By themselves the producers, as such, are quite unable to order the

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<sup>14</sup>Letter from Hutt to Robbins, 9 September 1932, Robbins/7/16/. Hutt to Plant. 30 December 1927. Plant/441/. Hutt to Robbins, Robbins/3/. See also Hutt's memoirs, p. 85

direction of production (Mises, 1936, p. 444).

It is tempting to see Hutt's view on consumers' sovereignty as Austrian, as Samuels (1990), Persky (1993b) and Olsen (2019, p. 57) affirmed. Hayek and Mises certainly had a significant impact on Hutt's postwar thinking, and also some indirect influence through Robbins.<sup>15</sup> Hutt, moreover, read Fetter and Philipp Wicksteed, who had both integrated Austrian ideas in their thinking. Hutt admired the work of Fetter and he sent him a copy of his 1936 book after it came out. Fetter replied that he was in 'cordial agreement with almost every point' of Hutt's analysis. Although he considered himself a Progressive Liberal, Fetter approved Hutt's intervention in the public debate: 'It is a much needed expression of the spirit and philosophy of the Liberal Economists which is being forgotten in the midst of the clamors from the extremists camps of Communism and Fascism'.<sup>16</sup> Yet, these shared viewpoints do not make for a direct influence of Austrian economics on Hutt. As he remarked later: 'I myself became aware of the strength of the Austrian approach rather slowly. Until late in my life their writings were not available in English.'<sup>17</sup> Even Mises' book did not appear in English before Hutt completed his. Other LSE economists close to Hutt had expressed similar views on the role of the consumer. For instance, Theodore Gregory wrote that 'the *essence* of capitalism is production for, and dependence upon, a market dominated by freedom of choice for the consumer' (Gregory, 1933, p. 239).

A very significant case is the plea made by Plant in his 1931 inaugural lecture as Professor of Commerce for the role of businesses as 'faithful servants' of consumers (Plant, 1932, p. 52). Plant criticized the recent attempts to substitute central planning for consumers demand as 'the controlling power which ultimately determines the nature and volume of all production' (p. 46). He argued that the business man was only 'the organising agent of that relentless controller and employer, the community of consumers' (p. 51).

The core of former Cannan students at LSE shared some socio-political inclinations (see Tribe, 2008). In 1937, Hayek could name only two dozen 'real liberals' in the world. Some of them belonged 'to more or less definite groups', such as the 'Cannan group':

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<sup>15</sup>For an exposition of Robbins' interwar neoliberal vision, see Robbins (1937, pp. 221-268). On Hayek's influence on Robbins, see Durbin (1985, pp. 101-103).

<sup>16</sup>Fetter to Hutt, 12 June 1937, Frank A. Fetter Manuscripts, Lilly Library, Indiana University Bloomington, Box 2, Folder: Correspondence 1937, July-Sept. Fetter was influenced by Carl Menger, and he even entertained personal relationships with many Austrian economists, but these contacts were posterior to the publication of his *Principles* (1905). See McCaffrey (2019).

<sup>17</sup>Hutt Papers, 'History of Economic Thought - Austrian School', Box 15. For the contrary, but largely unsubstantiated, view that Cannan's students had 'imbibed enough of the common-sense Austrian conception of the market' see Seldon (1998).

‘Benham, Gregory, Robbins, Plant and I should probably have added Mr G. L. Schwartz in London, and Hutt in Capetown.’<sup>18</sup> In her private diary, Beatrice Webb lamented that the LSE economists were ‘ultra individualist apologists for profit making Capitalism’ (cited by Burgin, 2012, p. 18). They probably were very aware at the time that their defence of capitalism ran against the tide. As Hutt would confess years later with respect to Plant: ‘Plant and I were both iconoclasts in our whole-hearted acceptance of the classical tradition in economics and our conviction that social harmony was to be sought through the operation of markets. We had been friends since our undergraduate days, and we were well aware of the unpopularity of our convictions.’ (Hutt, *Memoirs*, p. 58).

Enthusiasm for the market mechanism was more broadly shared among LSE economists (Hicks, 1982; Coats, 1982). The young men who gravitated around Robbins in the 1930s were part of the same generation. In 1936 for instance, Robbins, Plant, Hutt, Hayek, Frederic Benham, Abba Lerner, and John Hicks were all in their thirties. They shared a sense of excitement for the study of market mechanisms. Whether they were ‘socialists’ like Abba Lerner, or not, they abode to the liberal assumption of freedom of consumers.

### 3 *The Economists and the Public (1936)*

#### 3.1 The Degeneration of Late Nineteenth Century Thought

The main goal of *The Economist and the Public* (1936) was to restore the authority of orthodox economics among the educated public. The source of the disrespect for economists’ opinion was identified by Hutt in the late nineteenth century corruption of economic thought. The rational progress of the discipline would be won by fighting against engrained traditions, or ‘custom-thought’, and vested interests which generate what he called ‘power-thought’. With its Radical origin, Economics was not so much at risk of influence from custom-thought, but Hutt considered it to be a widespread disease in contemporary political theory: ‘Practically the whole of modern politics is concerned with what are primary economic questions; and it is largely by changes in this sphere, in which economics and politics meet, that progress towards the ethical ideals of our social and political philosophers might be realised.’ (p. 51)

The influence of power-thought on public opinion was strengthened by the extension of the franchise.<sup>19</sup> According to Hutt, public opinion became increasingly sensitive to

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<sup>18</sup>Hayek to Lippmann. 11 June 1937. Yale University Library, Walter Lippmann Papers, Selected correspondence 1931-1974, Box 10, Folder 11: Hayek. See also Innset (2020, p. 46).

<sup>19</sup>See also ‘A Liberal Takes Stock’. Undated public address by Hutt. Likely written between 1935

the vested interests of organized capital and organized labour.

Like many other neoliberals, Hutt's renewed liberal vision rested on a critique of *laissez-faire* (see Jackson, 2010, Fèvre, 2015, Innset 2020). Hutt contended that classical political economists had not sufficiently theorized the institutional structures necessary to sustain individual freedom and the other liberal values of equality, and tolerance. The most serious mistake was to support the lifting of restrictions on labour unions, thinking that it would set free the labour market (Trade Union Act of 1871). Utilitarians like Mill erred in that regard: 'Had their interpretation of experience been different, their *laissez-faire* would surely not have been a maxim of State passivity: it would have envisaged a militant State – persistently aggressive against any restraints not defensible in the light of their utility principles.' (p. 189) <sup>20</sup> In other words, such a state would prevent unions from developing monopoly powers, but alas, 'Mill's *laissez-faire* justified the tolerance of economic coercion' (pp. 191, 248).

Economists who tried to retain some influence in the age of extended franchise 'made more frequent appeals to the emotions rather than the minds of their readers' (p. 179). They adapted their doctrines to popular appeal and to the contingencies of party politics. Even the great Mill suffered from a 'subtle and unconscious corruption of his intellectual purity' (p. 184). According to Hutt, his teaching had been corrupted by his 'contact with a shallow social sentiment and popular opinion'. Mill's 'heart responded readily to the ideals of Saint-Simonism and Owenism, and his head failed to control his heart' (Hutt, 1936, p. 197).

Earlier, Hutt (1934b) had argued that economists had been too tolerant on 'confused thinking' which had led to the advocacy of planning. He was not alone in accusing his opponents of being irrational. Hayek (1933) criticized the 'emotional revolt' of his time.

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and 1939, Hutt papers, Box 24extra. The extension of the franchise also worried Hutt decades later in the context of the apartheid regime in South Africa. In one of his most well-known book, *The Economics of the Colour Bar* (1964), Hutt criticized racial segregation in South Africa on the basis that it was distorting the labour market by excluding black workers. For Hutt, the Apartheid evolved from the exclusion mechanism that white labour union imposed on coloured workers to reduce supply and drive up wages for their group (Jackson, 2015). Although Hutt overtly criticized the regime as unjust—his passport was even revoked for a few years—the reasons he provided against segregation seemed to miss the point for many (see Schneider, 2003). Earlier Hutt had expressed sympathies with the white elite who feared of losing their power (Hutt, 1943, p. 144). Decades later, on the issue of the transition to a more democratic regime, Hutt proposed to weight votes according to income or to taxes paid in order to counter the effects enfranchising black citizens. A discussion of Hutt's proposal for South Africa is beyond the scope of this paper. See the compelling analysis of Slobodian (2018, pp. 172-178).

<sup>20</sup>Hutt had already put this argument to Cannan in a 1927 letter: 'The fact that we [individualists] believe there is a strong presumption against State action will not prevent our condemning restriction by other bodies possessing coercive power, even if the weapon used for coercion is an economic one and the coerced are unaware of their coercion!'. (Hutt to Cannan, 23 September 1927. LSE archives. Cannan/1029/.)

Robbins fought against the romantic corruption of rational thought by socialism and historicism (Robbins 1935, cited by Howson, 2011, pp. 273-274). This was one rhetorical strategy, among others, used by some interwar liberals to attack ideas supporting collective action.

### 3.2 On Sovereignty and Liberty

Hutt advanced an economic vision of society as a solution to the fundamental problem of liberal thought: how to combine individual freedom with social cohesion and peace. In the chapter dedicated to consumers' sovereignty, he argued that 'The social will may be most truly sovereign under that system which vests the greatest measure of sovereignty (or ultimate power) in the *consumer*' (Hutt, 1936, p. 257). Hutt's usage of the concept of consumers' sovereignty was resolutely normative: 'The defence of consumers' sovereignty rests, as we shall see, upon an assumption that liberty does possess this supreme importance.' (p. 267) The sovereignty of the consumers was a social ideal. It was not primarily an empirical assumption about the rationality or the optimality of individual decisions. Hutt was critical of Bastiat and other classical economists who had assumed that competition was a natural phenomenon. Following Robbins (1932), Hutt (1934a, p. 14) believed economists ought to make their norms explicit.

Hutt's concept of consumers' sovereignty was the keystone of a neoliberal vision of society built upon an array of normative sources. Chiefly among them was the complex intellectual legacy of John Stuart Mill. Mill was quoted as an authoritative source by New liberals, by Fabians, but also by Hutt (Freedman, 1996, p. 454; Jackson, 2010, p. 134, Audard, 2009, Chapter 4). In the pamphlet *The Philosophy of Individualism* on which Hutt worked in 1927, Mill's *On Liberty* (1859) is cited as the 'textbook' of the cause. In a public address delivered in the 1930s, Hutt declared that *On Liberty* was 'the most important book that the nineteenth century produced'.<sup>21</sup> Against the stifling pressure of Victorian social norms, Mill had defended the free development of individuality. He wanted to demarcate a sphere for individual expression free from interference by society: 'What, then, is the rightful limit of the sovereignty of the individual over himself? Where does the authority of society begin? How much of human life should be assigned to individuality, and how much to society?' (Mill, 1859, p. 83). Hutt's conceptual tour de force was to reformulate Mill's 'sovereignty of the individual' into an economic concept by criticizing political theory.

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<sup>21</sup>'The Rise and Decline of the Ideal of Liberty'. undated. Hutt Papers, Box 24extra.

Hutt criticized political theory for recognizing only the sovereignty of the State, neglecting the sovereignty of society. Entrusting consumers with the social power to command over the allocation of resources was Hutt's solution to the philosophical problem of the limits to freedom. Traditional political theory did not take into account the non-coercive forms of restraints imposed by members of a society on each other. By striving for the maximum satisfaction of their preferences, individuals make claims on others. These claims constraint the freedom of others to the extent that they wish to partake in the social division of labour: to also make claims on others, individuals need to accept restriction to their own freedom in the first place. These social forces constraining individual freedom are not imposed by the state, they are the result of the free action of members of society (p. 256). And because these market forces manifest themselves impersonally, impartially, and inevitably, they should not lead to resentment on the part of the population (pp. 252, 255). Hutt argued that individuals realize their utmost free self when subjected to the constraints of a market society, provided that equality of opportunity is established. Under such conditions, rational citizens should accept the social order as just (p. 256).

Hutt's conception of sovereignty followed a breach in the idealist doctrine of State sovereignty initiated by Harold Laski.<sup>22</sup> However, Hutt did not follow Laski in his defence of political pluralism. From a pragmatic and materialist stance, Laski (1925) argued that there were multiple sources of power besides the state. As a contemporary commentator put it, for the young Laski, 'real sovereignty is to be found in society at large' (Elliott, 1928). Laski (1925, p. 69) argued that modern states ought to serve the plural interests of their members. In contrast, Hutt was arguing against the rise of trade unions, cartels, and industrial lobbies and so he could not accept the prospect of these groups sharing political sovereignty with the state. Only a constitutional state could protect the interest of individual consumers and resolve social conflicts. For Hutt, the plural associations defended by Laski had 'no complete identity of interests with the community as a whole' (Hutt, 1936, p. 271).<sup>23</sup>

Hutt's own interwar neoliberal vision of society borrowed from classical liberalism,

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<sup>22</sup>Schwarzkopf (2011b) suggests that the conception of sovereignty in consumers' sovereignty relies on the 'corpus mysticum' of medieval political theology. Yet, he also admits (p. 111) that nineteenth century political philosophers and twentieth-century defenders of consumers' sovereignty translated the 'corpus mysticum' in the 'consuming public' without making explicit reference to the former notion, and were perhaps ignorant about its conceptual origins.

<sup>23</sup>Laski's view had evolved and in *Grammar of Politics* he became critical of the Guild Socialism of G.D.H. Cole. But Hutt (1936) still quoted a passage from Elliott (1928) that referred to the more radical views espoused by Laski before the *Grammar*.

but it also acknowledged some aspects of social liberalism which made it different from both the classical vision and the postwar neoclassical vision. From a methodological perspective, Hutt was critical of mathematical economics. He pleaded for a return to the methods of inquiry of Smithian classical political economy, as put forward notably by Cannan (1902). Hutt extensively used group categories such as ‘workers’, ‘capitalists’, ‘society’—a far cry from the strict methodological individualism of James M. Buchanan, for instance. Hutt’s representations of human aspirations and social interdependence have more in common with Mill and Thorstein Veblen than with the instrumentally rational agent of postwar neoclassical theory.

And yet, for a renewed liberal vision to win the ideological battle against socialism, it was important to acknowledge some of the realistic observations of sociology to avoid the weaknesses of classical liberalism which had been accused of all the social ills at the end of the nineteenth century. Hutt thought Laski was right to consider the desire for liberty as a ‘paramount force in humanity’s striving’ (Hutt, 1936, p. 250-251). In a public address delivered in the interwar period, Hutt talked about liberty in similar Millian terms: ‘The love of freedom emanates from our instincts to preserve all our powers of innovating, experimenting, of proceeding by trial and error. In brief, it is a spontaneous desire we all have in some measure, to retain the scope left to us of experiencing all that life has to offer.’<sup>24</sup>

Hutt argued that the case for a society based on market competition rested on the ultimate values of liberty and tolerance—which he saw as intimately connected (Hutt, 1936, p. 293). An ideal society organized around consumers’ sovereignty would create an atmosphere of freedom for human flourishing despite the pressure of social norms. As Hutt saw it, humans strive for being their best selves, but their ‘tastes and desires [are] deliberately (or incidentally) moulded by other individuals or groups’ (p. 273). In other words, they are ‘creatures of [their] environment’, of their ‘given social milieu’ (p. 283). From a normative standpoint, the economist or the philosopher could not judge of the ‘goodness or the badness of the results of any valuation process’. (p. 282) Valuations are personal, subjective, but thankfully, the principle of consumers’ sovereignty does not require any judgement concerning human tastes or motives (p. 309). In fact, Hutt held that ‘the preferences of each individual *ought* to exert an equal influence’ on the social production. Of course, the higher classes could back their desires with more money, but because the goods demanded by the poor were often produced under decreasing costs, the sheer number of poor people would ensure that the market serves their taste, sometimes even better than that of the rich. Hutt was also aware of

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<sup>24</sup>‘The Rise and Decline of the Ideal of Liberty’, Undated. Hutt Papers.

the wasteful conspicuous expenditures on luxury goods. He acknowledged the rise of mass culture and disapproved of the ‘appalling taste of today’, but he nonetheless held up to his liberal principle: ‘We must be prepared to tolerate, therefore, tastes of which we are unable to approve.’ (p. 293).<sup>25</sup>

According to Michael Freeden’s (2015) theory of the evolution of liberalism, Hutt’s liberal vision combines elements of the first four historical layers of liberalism. Hutt is committed to (1) individual rights from government oppression, (2) market freedom, (3) a view of humans as dynamic agents who strive for the development of their individuality and (4) a theory of mutual social interdependence. From this last point, Hutt deduced some form of government intervention that went beyond the classical liberal vision of the nightwatchman state, but he stopped short of the welfare state proposals advanced in the UK by his New Liberals and Labour compatriots, or for that matter, by Henry Simons (1934) in the United States. During the interwar period, his use of a strong constitutional state came down to establishing the conditions for equality of opportunity, enforcing competition between producers and preventing the formation of trade associations.

## 4 The Totalitarian Threat

The early twentieth century provided a challenge for liberalism to reinvent itself to form a convincing alternative to the ideologies of fascism and socialism (see Burgin, 2012, p. 9). These were not only distant threats, but also real pressures at home. In South Africa, Hutt was directly troubled by Nazi sympathies in a large part of the electorate and their elected representatives. In the second half of the 1930s, the Minister of Industry, Adriaan Fourie, implemented measures to restrict ‘chaotic competition’ while the Minister of Defense, Oswald Pirow, was befriending Hitler in Germany.<sup>26</sup> In Hutt’s motherland, the ascendancy of Fabian socialism was growing among intellectual circles. For instance, in *Soviet Communism: A New Civilization?*, Beatrice and Sidney Webb (1935) made the case that Soviet Russia was a democracy in the making and that

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<sup>25</sup>Thus Hutt would have partly agreed with many of the postwar criticisms of consumption society. As Olsen (2019, pp. 58, 262-263) pointed out, the limitations of a crude politics based on consumers’ sovereignty often tossed aside by late twentieth century neoliberals were not unfamiliar to the first advocates of the principle such as Hutt. Interestingly, the empirical studies concluding in the difficulty of making good consumption choices predate the invention of the concept of consumers’ sovereignty. See Goodwin (2017), who unfortunately makes an anachronism in using the concept to refer to debates that predate its invention by Hutt.

<sup>26</sup>See ‘A Liberal Takes Stock’. Undated public address by Hutt. Likely written between 1935 and 1939. Hutt papers. Box 24extra.

Stalin was not a dictator like Hitler and Mussolini. Hutt was trying to make the exact opposite point: if people aim for a socialist regime, let alone a communist one, they might end up with a fascist dictatorship. The strategy of interwar neoliberals consisted in attacking fascism and socialism, at the same time as arguing for their liberal alternative (Reinhardt and Audier, 2018, p. 18). The attack consisted in lumping together all ideologies and regimes that they perceived as a threat to individual freedom: the Fabian interventionist state, Soviet Communism, Nazism and Italian fascism.<sup>27</sup>

The analogy between the market and elections supported the claim that democracy and a competitive order embodied the same set of liberal values. For Hutt, these institutions reinforced each other: ‘Electors’ sovereignty and consumers’ sovereignty under democratic institutions are complementary’ (Hutt, 1936, p. 311). Hutt was hopeful that such an argument could convince the educated public to turn away from totalitarianism. In a letter to Lionel Robbins written in 1932, Hutt asserted the economists’ responsibilities:

Is it altogether an impracticable dream to suppose that general acquiescence in the competitive solution could be obtained, for instance, simply because it could be shown to have all the validity and impartiality of the ballot box decision (excluding the complication of unequal distribution of wealth) and the merit of giving representation to minority demands?<sup>28</sup>

If the State’s legitimacy under a representative government rests on the fact that each citizen can have a voice, the sovereignty of consumers over producers rests on the fact that producers are also consumers, that ‘every individual is not only a subject but a sovereign’ (Hutt, 1936, p. 262).

Colleagues of Hutt also used the idea of consumers’ sovereignty to express their vision of a liberal order. Wilhem Röpke used the expression of ‘democracy of the consumers’ in a paper dealing with ‘Fascist economics’ published in *Economica* while Robbins was part of the editorial board. A prominent ordoliberal thinker with links to the LSE, Röpke argued that opening the door to a planned economy would lead to the replacement of the ‘democracy of consumers’ by an authoritarian and arbitrary planned regime (Röpke, 1935, p. 93). More generally, Röpke, was worried by the recent ascendancy of politics over economic logic (‘der Primat der Politik über die Wirtschaft’). The domination of politics over economic could lead to a neomercantilist dictatorship

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<sup>27</sup>The argument that communism and fascism imply the same denial of liberal values was famously made by Walter Lippmann (1937). See Fawcett (2014, p. 275).

<sup>28</sup>Hutt to Robbins, 9 September 1932. Lionel Robbins Papers. London School of Economics Archives. Robbins/7/16/

when politicians attend to the private interests of the few. Unsurprisingly, Röpke (1944, p. 127) later referred to Hutt's (1936) as an 'admirable book'.<sup>29</sup>

Hayek first used the expression of the 'sovereignty of the consumer' in his criticism of socialist calculation. He claimed that 'it is more or less agreed now that free choice of the consumer (and presumably also free choice of occupation) and planning from the centre are incompatible aims' (Hayek, 1935, p. 214).

Frederic Benham who was teaching at LSE in the 1930s wrote an introductory book that was very popular in Britain until the 1950s.<sup>30</sup> In the textbook, Benham argued that the capitalist mode of production rested on three pillars: 'Private Property, Freedom of Enterprise, and Freedom of Choice by Consumers'. Benham considered consumer valuations to be the 'controlling force' for the allocation of resources: 'under capitalism, the consumer is king' (Benham, 1938, p. 158). Echoing Hutt (1936), he asserted that 'the sovereignty of the consumer' under capitalism meant that 'the final purpose of all productive activity is to produce consumers' goods.' Benham denied that advertisements' influence on consumers challenged their sovereignty: 'a monarch may be advised and cajoled, as to some of his activities, even by his slaves, but he remains a monarch none the less' (Benham, 1938, p. 160).

In 1936, Hutt was hopeful that freedom would in due course triumph over totalitarianism: 'The ultimate attainment of economic liberty is an inevitable denouement' (Hutt, 1936, p. 299). Competition and consumers' sovereignty would eventually prevail:

As certainly as the democratic form has evolved, as certainly as dictatorships will dissolve, so will the substance of freedom finally be achieved through the subjection of the individual and the group to consumers' sovereignty. It may be that we are at present in the social and industrial dark ages; but we shall emerge. (Hutt, 1936, p. 299)

As the years passed, the threat of a totalitarian regime taking over the 'free world' grew bigger. After the war broke out, Plant wrote to Hutt: 'Everything we all value in life is now very precariously in the balance'. In one way or another, many economists were called on to participate in the war effort. The remaining LSE staff and students moved to Peterhouse in Cambridge as the LSE building in London was occupied by the Ministry of Economic Warfare. Writing to Hutt from his exile in Cambridge, Plant suggested: 'It may prove that its [The School] spiritual home is now the Depts of

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<sup>29</sup>Fèvre (2017, p. 311-312) argues that ordoliberalism abides to something like consumers' sovereignty.

<sup>30</sup><http://adb.anu.edu.au/biography/benham-frederic-charles-courtenay-5201>. See also Tribe (2009, p. 81).

Commerce and Economics in Cape Town. Keep the lamp burning.’<sup>31</sup>

On the day after Warsaw capitulated to Nazi Germany, Hutt wrote to Robbins in a less optimistic tone:

What on earth is the liberal to do to-day? What tactics will enable him to exert some small power? [...] Internally, it seems to me that we can simply keep pegging away on behalf of true liberalism until we are sent to concentration camps. [...] And with the rapidly mounting war expenditure, there never has been a more propitious time for preaching the advantages of a system which aims at the fullest utilization of productive capacity. [...] In other words, we ought to be able to show that the frustration of consumers’s sovereignty can be as effectively prevented as the frustration of a dictator’s sovereignty.<sup>32</sup>

For Hutt, economic liberalism could prevent the frustration of consumers’ sovereignty, just as it prevented the frustration due to the rule (sovereignty) of a dictator. Robbins was also worried. Writing to Hutt two months later, he pondered: ‘If the world does not perceive the consequences of illiberal policies now, will it not be even blinder than in our blackest moments we have ever imagined?’<sup>33</sup>

Hutt’s contribution to the war effort was to write a detailed institutional proposal to maximize the utilization of British productive capacity and to prepare for what he hoped would be a prosperous, more equal and freer society after the war. Writing in 1941, Hutt argued that the industrial system was not working at its full capacity because vested interests, with the agreement of governments, had withheld production for years to secure themselves a level of income. Hutt made the case for a decoupling of the decisions of production from the income distribution. In the context of a total war, Hutt assumed that consumers’ primary interest would be to win the war. This collective aim meant that consumers’ sovereignty would not be violated by central planning. ‘Institutional planning’ by national boards was to replace the sectorial ‘pressure-group planning’ of labour unions and cartels (Hutt, 1943, p. 215). After the war, the disclosure of financial information would allow a public body—equivalent to the US Federal Trade Commission—to force large firms to charge prices equal to marginal costs. However,

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<sup>31</sup>Plant to Hutt, 20 September 1939. Hutt Papers, Box 67. On the evacuation of LSE to Peterhouse, see <http://blogs.lse.ac.uk/lsehistory/2018/02/21/evacuation-to-cambridge/>.

<sup>32</sup>Hutt to Robbins, 29 September 1939, LSE archives. ‘Robbins/3/1/1/’. In the rest of the letter, Hutt was well aware that his liberal vision went against the tide. He wished economists could speak with a common voice and blamed ‘Keynesians’ for this failure. He also argued that ‘proposals would have to be wrapped up in tactful and acceptable terminology so as not to offend the prevailing ideologies’.

<sup>33</sup>Robbins to Hutt, 16 December 1939. Hutt Papers, Box 65.

since Hutt wanted his plan to receive wide appeal, he also proposed a minimum wage comparable to a nationally controlled Speenhamland system, as well as non-exclusive public provision of medical services, among other ‘positive’ functions of the state (Hutt, 1943, p. 249). Hutt hoped that the ‘weakening of the ideologies’ in Britain during the war would make his proposal more acceptable across political lines (p. 66).

The particular constellation of free market enthusiasm among LSE economists in the 1930s proved short-lived. Kaldor rallied to Keynesian ideas in 1936, followed by Hicks a few years later. Lerner moved to the US in 1937, followed by Hayek in 1950. Robbins’s macroeconomic views started to change at the end of the 1930s (Howson, 2011, p. 1083 ff.). The practical problems of war, and the opportunities for planning to which these gave rise led many, like Robbins and Hutt, to argue for increased government intervention in the economy. Contrary to Robbins, though, Hutt kept a classical macroeconomic outlook—he never supported Keynesian demand-management policies.

## Conclusion

Even if we cannot ascertain that William Harold Hutt was the inventor of the expression of consumers’ sovereignty, he certainly popularized it. Hutt’s liberal vision had been forged by the teaching he received at the London School of Economics and his involvement in the Individualist Movement in the 1920s. The Economics department at LSE also provided a friendly cradle for the expression. They shared a commitment to market solutions to the economic and political problems of their time. Moreover, as LSE was one of the most important centres for teaching and research in economics during the 1930s, with graduates and staff members with connexions all over the world, this hospitable setting helped to diffuse the concept into mainstream economics.

The particular mix of liberal values which it evoked was translated from the inter-war context to the Cold War debate in which the ideological battle continued against communism and state planning (Amadae, 2003). In 1947, Hutt did not participate in the first meeting of the Mont Pelerin Society, but he was invited by Hayek to join the group in 1948 and attended the second conference in 1949.<sup>34</sup> Until the 1980s, he was one of the most assiduous participants to the annual meetings (Plehwe, 2009, pp. 17, 20).

This paper highlighted the continuity between Hutt’s neoliberal vision and classical political economy. Hutt’s defence of orthodoxy was based on what he perceived to be the underappreciated virtues of the division of labour and market allocation. His

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<sup>34</sup>Hayek to Hutt, 21 June 1948. Hayek Papers, Hoover Archives, Box 76, Folder 2.

normative judgements often relied on utilitarian ethics, but he also manifested a direct concern for individual liberty as a potential for expressing oneself. In this plurality of normative sources, he was typical of many economists who rely, often implicitly, on both utilitarian and natural law arguments.

I have argued that Hutt's vision was neoliberal because it parted away from classical liberalism in many ways. His vision was built upon a friendly criticism of laissez-faire economics. Liberalism had taken a wrong left turn at the end of the nineteenth century and it needed to make a few steps back and take the right way for the future. It rejected the naturalistic view of the economic order and recognized the social interdependence of individuals. Thus, the competitive playing field needed to be constructed and actively maintained by a strong state.

Hutt's brand of liberalism accommodated itself to a conception of liberty influenced by Mill and Laski which was surprisingly open-ended compared to the common *negative* conception of liberty defended by liberals in the second part of the twentieth century. Hutt was certainly less positivistic than some of his LSE colleagues and some contemporary Italian liberal economists. To be specific, Hutt's conception of consumers' sovereignty did not assume that economic agents are rational homo oeconomicus who always know what is best for them.

The forceful plea delivered by Hutt in favour of consumers' sovereignty and individual freedom needs to be understood against the backdrop of the imminent peril posed by totalitarian regimes. The threat to individual liberty and political stability drove Hutt, like other interwar neoliberal economists, to reflect explicitly on the political foundations of a liberal capitalist system (see Jackson, 2012). For Hutt, the political power had to lay in a constitutional state. It could not be shared with private interest groups and trade unions. Political pluralism was a dangerous idea.

Hutt had an elitist distrust for the opinion of the common man. Yet, he was a democrat to the extent that he considered representative government as a safeguard of liberty (Hutt, 1936, p. 117). Contrary to the German ordoliberals, he still had faith in the institutions of liberal democracy. By coining the concept of consumers' sovereignty, Hutt tried to appeal to the liberal-democratic inclinations of his readership.

After the publication of *The Economists and the Public* (1936), the concept of consumers' sovereignty had a life of its own. The concept gained traction among neoliberals because it contributed to the imagination of an economic world with limited state sovereignty. Hutt had argued that national states were not the only bearers of sovereignty. Individuals had the power to demand or to refrain from demanding goods and services. The sovereignty of consumers could constitute a global order of goods, by

stripping national government of the power to allocate resources through central planning. With Hutt, the consumer became an abstract category for a political economy that could be applied on a global scale, a far cry from the activist citizen-consumer engaged in local politics at the turn of the twentieth century. To the extent that early neoliberalism was a political project, its goal was to imagine a liberal society free from the totalitarian control projected by communist and fascist regimes, as well as by milder forms of state planning. According to Slobodian (2018, p. 112 ff.), neoliberals associated with Geneva, such as Röpke, Mises, and Hayek were troubled by the politicization of the economic sphere. They were arguing for the limitation of national sovereignty, by fracturing it between individual consumers and supranational institutions that would foster free trade (p. 118). Consumers' sovereignty participated in the normative underpinnings of this vision of the world.

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