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Title: Crisis, Credit and Credulity: the incredible circulation of a counterfeit idea

Abstract: Even as the first warning signs of the global credit crisis were emerging in 2008, the IMF published a working paper that sought to analyze the youth employment effects of early retirement schemes in Belgium but ignored the historical context of those policies as part of the response to an earlier crisis – the "steel crisis" of the 1970s and 80s. Instead, the authors dwelt on a dubious but well-worn fallacy claim that advocates of early retirement policies believe there is a "fixed amount of work to be done", a "lump of labor." In the context of the astonishing history of the fallacy claim, what might seem a questionable paradigm choice for the paper's authors constitutes an inexcusable ethical lapse for the economics profession. Not only is the fallacy claim notoriously unsubstantiated, it originated as a propagandist's forgery and gained currency as a viciously partisan polemic against trade unions. Subsequent textbook versions of the fallacy claim may have toned down the vitriolic rhetoric but their *ad hoc* rationalizations neglect to offer any substitute for the original's fabricated evidence for the alleged belief. Financial credit depends on trust and today that foundation of trust extends to the scientific knowledge and technical analysis of experts. What does the enduring credulity of economists toward a demonstrably counterfeit fallacy claim suggest about the prospects for the economics profession to confront and remedy its ethical failures?

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Crisis, credit and credulity: the incredible circulation of a counterfeit idea

He who gives credit to the calumny before he has investigated the truth is equally implicated.
-- Herodotus

Carl Wennerlind prefaced his eloquent account of the English financial revolution with a quote from the 17th century political economist, Charles Davenant, which begins, "Of all Beings that have Existence only in the Minds of Men, nothing is more fantastical than Credit…" (Wennerlind 2011, p. 1). Davenant was, of course, talking about financial credit.

There is another common usage of "credit" that intersects in a curious way with the financial: academic credit. We are all familiar with the credits students have to acquire to obtain a degree, which itself is considered a credential, evidence of achievement and thus of trustworthiness. Both credit and credential derive from the Latin *credere* – to believe.

And, of course, there is a third meaning of credit: acknowledgement of contributions to a creative project.

By the end of Wennerlind's book, the reader should have gained an acute awareness of the uncanny interdependence between financial credit *per se* and ideas about credit. The stability of the former depends crucially on the credibility of the latter and of those who profess theories about credit – that is to say, economists. Credit is both a belief and a belief about a belief. For this reason, if for no other, academic integrity ceases to be dismissible as "academic" in the derivative sense of "not of practical relevance." A counterfeit claim regarding economic principles could be as corrosive to the public credit as counterfeit banknotes.

This paper presents a case study of one such counterfeit claim, the so-called "lump-of-labor fallacy" hailed by *The Economist* magazine's *Essential Economics* as "one of the best known fallacies in economics." The fallacy claim has been shown to be spurious by this author (Walker 2000, 2007) but the beast slouches stubbornly on in economic analyses. Recently the bogus claim featured prominently in *Social Security Programs and Retirement around the World: the Relationship to Youth Employment* (Gruber and Wise 2010), a chapter of which, "The Effects of Early Retirement on Youth Unemployment: The Case of Belgium" (Jousten et al. 2010), had previously been published as an IMF Working Paper (Jousten et al 2008). Four other chapters in the book and the introduction mentioned the fallacy claim.

In a section titled, "Lump of Labor Fallacy and Youth Unemployment in Belgium," Jousten et al. characterized the rationale behind early retirement schemes as "forcing elderly workers out of the labor market… [to] provide jobs for the unemployed young" and argued, "For most economists and (fortunately) an increasing number of Belgians, this view is based on the erroneous belief in a fixed amount of work. Economists call this allegedly widespread view the 'lump of labor fallacy'" (p. 55).

Two other instances of the claim appeared in earlier IMF documents. A 2004 IMF staff report on Article IV consultations with Belgium stated, "With the lump-of-labor paradigm anchoring thinking, labor supply has been curtailed, leading to high labor costs and very capital-intensive production" (IMF 2004, p. 14). A contribution to an 1995 IMF staff study also identified a "lump-of-labor fallacy" lurking behind views that, if work "is currently distributed unequally, with most people in the workforce working full time and some remaining unemployed for prolonged periods, work sharing and early retirement could spread the job opportunities more equitably" (Snower 1995, n.p.).

In their discussion of early retirement schemes in Belgium, Jousten et al. made no mention of an event known as "the steel crisis" that occurred in the European Community and North America during the period from the mid-seventies to the mid-eighties. Belgium was particularly hard hit by the crisis for a variety of reasons, among them the importance of the steel industry to Belgium's exports, the prominent role of public finance in modernization and restructuring plans and the concentration of steel industry output and employment in French-speaking Wallonia, exacerbating regional tensions with more prosperous Flemish-speaking Flanders.

Between 1974 and 1978, employment in the Belgian manufacturing sector declined by 105,000 or 22%. By 1985, the iron and steel industry alone shed 46% of its workforce, 29,000 workers. Layoffs were largely avoided during the restructuring by using early retirement as the main method for reducing the workforce (Houseman, 1991 p. 38). From this perspective, early retirement schemes might best be seen as a way of *eliminating* redundant jobs rather than of vacating them so they can be filled by younger workers.

What are we to make, then, of an analysis that ignores the crucial historical context of the policy it is examining and instead highlights a dubious claim about the motives of policy proponents? That question can only be answered by situating the latter claim within its historical context. As I have shown elsewhere, the fallacy claim is not an authoritative articulation of economic principles but a partisan polemic aimed at *dis*crediting the legitimate aspirations of working people. The polemic that emerged in the late 18th century and was refined over the course of the 19th was patronizing at best and defamatory in its more extreme instances.

Although, the now standard label of the "lump-of-labor" was coined by D. F. Schloss (1891), the claim of a fallacious belief in a fixed amount of work originated more than a century earlier. The oldest specimen I have been able to discover appeared in a 1780 pamphlet, "Thoughts on the Use of Machines in the Cotton Manufacture," usually attributed to Dorning Rasbotham, a Lancashire magistrate. The anonymously published pamphlet, whose author styled himself "a friend of the poor," was written in response to rioting that had occurred in October of the previous year. Page 18 contains the following argument:

> There is, say they, *a certain quantity* of labour to be performed. This used to be performed by *hands,* without machines, or, with very *little* help from them. But if now machines perform a *larger share* than before, suppose one *fourth part, so many hands*, as are necessary to work that fourth part, will be *thrown out of work*, or suffer in their wages. The principle itself is *false*. There is not a precise limited *quantity* of labour, *beyond* which there is no demand.[1]

[1] Rasbotham's defense of the use of machines conforms to the anti-mercantilist argument against protectionism, as presented in Henry Martin's 1701 pamphlet, "Considerations upon the East-India Trade." Curiously, Rasbotham

The "false principle" of "a certain quantity of labour to be performed" only appeared after Rasbotham had enumerated a seven-point defense of machines as beneficial to the poor as well as to society as a whole. The purpose of the argument on page 18 was evidently to anticipate and refute potential objections to the preceding main argument. It was a hypothetical "they" who "say" there is a certain quantity of labour to be performed. Although it is possible there were some rioters who entertained such lofty thoughts, it is more likely that most were motivated directly by actual loss of employment or wages – or by dangerous or irksome working conditions – than by abstract reasoning about the economic processes responsible for their discontents. As Cecil Pigou pointed out 133 years later, with reference to the "fixed Work-fund fallacy" (yet another name for the lump of labor):

> It would, however, be unwarrantable to conclude that, because the reasons which popular thought offers in defence of any thesis are invalid, therefore, that thesis is untrue. If it were a good ground for rejecting an opinion that many persons entertain it for bad reasons, there would, alas, be few current beliefs left standing (p. 39)!

Although patronizing, Rasbotham's tone towards those to whom he attributed a false principle was still comparatively benign. It took the near passage of the Ten Hour Factory Bill in the U.K. some 53 years later to bring out the fully malignant version of the fallacy claim.

With the repeal in 1824 of the Combination Acts, trade union activity became legal in the U.K. By the early 1830s, however, the Tory government was worried about the burgeoning organization of workers, along with occasional outbreaks of violence, such as the Swing Riots of 1830. After the defeat of the Tories in November 1830, the outgoing Home Secretary, Robert Peel urged his Whig successor, Lord Melbourne, to take urgent action to suppress the trade union threat (Curthoys 2004, pp. 21-25).

Melbourne commissioned the Oxford political economist, Nassau Senior and Thomas Tomlinson, a lawyer, to prepare a report on combinations with recommendations about what could be done to restrain them. Senior and Tomlinson's *Report on Combinations* recommended suppression of unions by means of a harsh interpretation of the common law, prosecuting as "conspiracy" activities that might be considered necessary to maintenance of the union's unity, such as leveling fines for contravening union regulations on wages or hours.

The "Tolpuddle Martyrs" case in 1834 is a classic example of the resort by Lord Melbourne's administration to enforcement of obscure legal technicalities in order to suppress otherwise legal union activity. The Dorset farm laborers had gone on strike in response to successive reductions of their wages from nine shillings a week to eight, then seven and finally to six. The union members were charged, convicted and sentenced to seven years transportation to Australia and hard labor for the crime of "swearing an oath."

In 1833, with the Ten Hour Bill on the brink of passage in the House of Commons, the Whig government established a Royal Commission to forestall that event. One of the assistant Poor

committed the same "fallacy" with regard to trade at the top of page 18 as he accused others of, with regard to machines, at the bottom of the same page. It is an endearing feature of the fallacy trope that claimants can't seem to resist stepping into the shadow cast by their aspersions!

Law commissioners reassigned to conduct the investigation, Edward Carleton Tufnell, submitted a risibly one-sided final report, "Mr. Tufnell's Report from Lancashire." In it employers were portrayed virtually as saints; union members and their supporters were denounced as liars, thugs and *atheists*; and children's health was said to positively blossom under the incubation of long hours of factory work.

Tufnell went on to anonymously publish his insights on the depredations of trade unionism in *Character, Object and Effects of Trades Unions.* "Were we asked to give a definition of a Trades' Union," Tufnell concluded at the end of that book, "we should say that it was a Society whose constitution is the worst of democracies — whose power is based on outrage — whose practice is tyranny — and whose end is self destruction" (p. 125).

The prototype for the subsequent lump-of-labor fallacy claim appeared on pages 512-13 of Tufnell's commission report and, more eloquently, on page 29 of his propaganda pamphlet. The latter version was cited in full, with extravagant praise, in the April 1834 issue of the *Monthly Review,* the *Gentleman's Magazine* of June 1834 and the *Edinburgh Review* of July 1834. In addition, the pamphlet received glowing reviews (a.k.a. "puffery") from the *Times of London*, the *Chronicle*, *Blackwood's* and the *British Magazine and Monthly Register of Religious and Ecclesiastical Information, Parochial History, and Documents Respecting the State of the Poor, Progress of Education, etc.* That is to say, Tufnell's account received immediate and widespread circulation among the opinion leaders of the day. Tufnell offered the following account of the union's motives for supporting the Ten Hour Bill:

> The Union calculated, that had the Ten-hour Bill passed, and all the present factories worked one-sixth less time, one-sixth more mills would have been built to supply the deficient production. The effect of this, as they fancied, would have been to cause a fresh demand for workmen; and hence, those out of employ would have been prevented from draining the pockets of those now in work, which would render their wages really as well as nominally high. Here we have the secret source of nine-tenths of the clamour for the Ten-hour Factory Bill, and we assert, with the most unlimited confidence in the accuracy of our statement, that the advocacy of that Bill amongst the workmen, was neither more nor less than a trick to raise wages—a trick, too, of the clumsiest description; since it is quite plain, that no legislative enactment, whether of ten or any other number of hours could possibly save it from signal failure (p. 29).

Tufnell's description of the union's motives was adapted from commission testimony by a cotton manufacturer, Peter Ewart, in response to Tufnell's question, "What do you suppose to be the chief motive for the operatives here advocating the Ten-Hour Bill?" Ewart had answered, in part,

> Their earnings are greatly encroached upon by the contributions they are compelled to make for the support of those who are unemployed, and they imagine that if the hours of work are to be limited to ten, new mills must be built to supply the diminished quantity of yarn, and that the unemployed hands which they now have to support will then be employed in these new-erected mills. This expectation is obviously fallacious, as the cost of yarn and cloth produced would be so much increased by the same expence of fixed capital falling on a smaller quantity that the demand cannot be expected to continue, especially as we have to meet the

> competition of foreigners who are working longer hours, and at much lower charges (Factory Inquiry Commission 1833, p. 165).

While Rasbotham's "false principle" had been only a hypothetical argument, Tufnell's "secret source of nine-tenths of the clamour" was an idea *attributed* to the workers by an employer and critic of the Ten Hour Bill but falsely reported by Tufnell as plain fact about the union's calculation. Such misrepresentation would count as *forging* in Charles Babbage's typology of scientific frauds, "the forger is one who, records observations which he has never made" (Babbage 1830 p. 177). Today, such activity is known as "fabrication."

Thirty-four years after Tufnell's prejudicial appropriation of Ewart's speculative testimony, James Ward "plagiarized in the most shameless manner" (Brentano 1870, p. *clix*) extensive extracts from *Character, Object and Effects,* including the passage about the alleged calculations of the cotton spinners' union. In *Workmen and Wages: At Home and Abroad,* Ward (1868) *presumably* also plagiarized extensively from an unsigned *London Quarterly Review* article published the previous year. "Presumably" because elsewhere in his book, Ward quoted from and cited the same *Quarterly Review* article, commending it as "an able exposition of trades-unions." Ward's penchant for plagiarism provides a serendipitous juxtaposition of two versions of the fallacy claim, the Tufnell original and the following descendent:

> The real cause of the objection to piece-work and overtime is the one we have mentioned, the view that wages being determined in their amount by importunity and combination, they form a fund for the general benefit of all, and that the fund gained by the contributions and exertions of all ought not to be encroached upon by the superior strength and dexterity of a few. To any one accustomed to even the most elementary principles of political economy, to state these views is to refute them. We have touched the fallacy which lies at the bottom of this whole system (*Quarterly Review* 1867, p. 188, Ward 1868 p. 301 [with minor changes to punctuation]).

The "elementary principle" of political economy Ward and his *Quarterly Review* muse were referring to was the wages-fund doctrine, soon to be refuted by William Thornton and recanted by John Stuart Mill.[2] The ink was scarcely dry on Mill's recantation when yet another treatise, this one on "Economic Fallacies and Labour Utopias," appeared in the *London Quarterly Review* of July 1871. The purported "union theory" was still wrong but *for exactly the opposite reason* it had been wrong four years earlier! In 1867 the unionists had been wrong because they allegedly *deviated* from orthodox doctrine; in 1871 they were wrong because they supposedly made *the same assumption* as the now discredited orthodox doctrine:

> While the orthodox political economists adhered to their Wage-fund theory, they made use of it to maintain the doctrine (valid on other grounds) that neither employers nor workpeople can arbitrarily rise or lower the wages of labour. But the Trades' Unionists had their Wage-fund theory too, and founded on the same assumption of a permanent wage-fund, in the hands of capitalists, the conclusion that it was possible for that portion of the working people organized in Unions to cause the lion's share of that fund to come into their own hands, to the exclusion, as far as possible, of outsiders—that is to say, of the whole body of workpeople outside the Unions. All that can be said of the Unionist creed on this head is, that it is a shade less absurd

[2] On the wages-fund doctrine, see Vint 1996.

than that which has just been abjured by the chief of the so-deemed orthodox economists. (p. 243).

A few months later, in October 1871, the London correspondent of the *New York Times*, reporting on the strike of engineers in Newcastle for the nine hour day, parroted Tufnell's by then well-worn cliché of a "secret trick to raise wages." "The real question which lies at the bottom of the dispute is the object of the men in seeking a reduction of hours," wrote the *Times* correspondent. "Do they want the rest and leisure for its own sake, or for the sake of ulterior designs?" He answered his own question with the conclusion that the real motive was the covert one:

> The League is only an offshoot of the Unions, and the great object of the Unions is to surround production with all manner of restraints and restrictions, so that it shall not be accomplished too fast or by a small number of workmen. Their theory is that the amount of work to be done is a fixed quantity, and that in the interest of the operatives, it is necessary to spread it thin in order to make it go far...

By the turn of the twentieth century, the motif of the secret trick and ulterior design of unions had acquired the status of a diabolical plot to tyrannize over employers and ruin the economy. A celebrated exposé in the *Times of London* from 1901, "The Crisis in British Industry" maintained:

> It was hoped to 'absorb' all the unemployed in course of time, not by the laudable and much-to-be-desired means of increasing the volume of trade, and hence, also the amount of work to be done, but simply by obtaining employment for a larger number of persons on such work as there was already. The motive of this aspiration, however, was not one of philanthropy pure and simple. When all the unemployed had been absorbed the workers would have the employers entirely at their mercy, and would be able to command such wages and such terms as they might think fit.

Across the pond, in the U.S.A., the National Association of Manufacturers, under the militant anti-union leadership of David M. Parry adopted the denunciation of the lump-of-labor as its banner in the fight against the eight-hour day and the union shop in general. Parry, who at the association's 1903 convention proclaimed his mission of "pulling up, root and branch, the un-American institution of trades unionism," wrote a dystopian novel, *The Scarlet Empire,* in which one of the lead characters vehemently denounces as "one of the most dangerous vaporings of ignorance" the theory of the Federation of Labor of the fictional Atlantis, "that there was a certain amount of work to be done…" (pp. 209-210).

The fallacy claim originated and was strenuously propagated as an unabashed anti-union polemic. Its incorporation into economics textbooks and mainstream discourse as an "economic fallacy" came only much later and was accompanied by a great deal of *ad hoc* apologetics that never got past the circular conviction that advocacy of policies alleged to be based on the fallacy is somehow *prima facie* evidence of the fallacious belief. Or, in plain terms, being accused of the offense is taken as "proof" of having committed it. *Those who make the fallacy claim neglect to offer specific evidence of the supposed belief in a fixed amount of work* (Walker 2005, p. 1).

The alleged fallacy is a verbal sleight of hand – a loaded statement based on a compound claim and on the ambiguity of the word "belief" or the radical contingency of so-called "implicit" assumptions. Belief can refer either to the act of believing or to the thing believed. In the case of the fallacy claim, the alleged believing is not substantiated, which renders the ridiculous idea moot. But it is precisely that irrelevant second part that constitutes the seductive hook. Fallacy claimants return again and again… and again – "like dogs returning to their vomit"[3] – to the second part of the compound claim, as if its abject silliness somehow vindicates their otherwise unsubstantiated allegation of someone believing in it.

It bears repeating, it doesn't matter how ridiculous an idea is, if you don't believe it – and if I can't show that in spite of your denial, you actually do believe it – you haven't committed a fallacy. Some fallacy claimants pretend to demonstrate their opponent's supposedly "implicit" assumption. The way that they do this, however, is by assuming a cluster of unstated ("self-evident" or standard) assumptions from which they then *deduce* the fabled fixed-amount-of-work assumption.

But is there really *no limit* to the demand for labor, as fallacy claimants often insist as a rejoinder to the alleged "fixed amount"? Actually, the demand for labor is constrained by the availability of credit, which, as Davenant further observed, "hangs upon Opinion; it depends upon our Passion of Hope and Fear; it comes many times unsought for, and often goes away without Reason, and when once lost, is hardly to be quite recover'd." Hypothetically, then, credit could expand indefinitely. Indefinite, however, does not mean infinite. It means simply that we don't know what the limit is or when it will be reached. Historically, expansions of credit have *always* come up against limits. The subsequent recovery doesn't annul the human suffering brought on by the crisis or the cost of surmounting it.

There was a darker side to establishing the modern credit system in the first place, as Wennerlind has shown. That dark side involved debtors prisons, the death penalty to deter counterfeiters and coin clippers, transportation of thousands of slaves to Spanish America (with an estimated mortality rate during crossing of around 15 percent) and the maiming and deaths of thousands of soldiers and sailors in war. "Casualties continued to mount as state authority was employed to stir up people's 'Passion for Hope and Fear' in order to ensure that credit flourished" (Wennerlind 2011, p. 2).

Less dramatically, during the period of industrialization in the U.K., legislation banning combinations among workers and judicial action to suppress unions, even after their legalization – along with the prosecution and imprisonment of deserting or disobedient workers for up to three months under the Master and Servant Acts – supplemented with state sanctions the "passive" coercion of unemployment (Steinfeld 2001). That state-sanctioned coercion of labor is the historical context in which the fallacy claim originated. Both Rasbotham[4] and Tufnell were government officials charged with enforcing and/or promulgating such coercion.

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[3] Appointed Warden of the Royal Mint in 1696, Sir Isaac Newton pursued counterfeiters mercilessly, reputedly spurning an appeal for clemency from execution with the observation, "Criminals, like dogs, always return to their vomit."

[4] During Rasbotham's tenure as magistrate, "The charges most frequently brought before the justices in summary session concerned workers who had left the service of their masters" (Fisher 1995, p. 1248).

But, again, as even Jousten et al. concede, "Those who make the fallacy claim fail to offer specific evidence of the supposed belief in a fixed amount of work." (2008 p. 9, 2010 p. 55). Complementing that characteristic lack of evidence for the alleged belief is yet another absence: the failure to cite an authoritative source for the fallacy aspersion. It is "one of the best known fallacies in economics…," "Economists call it the 'lump of labor fallacy'…" and "For most economists… this view is based on the erroneous belief in a fixed amount of work…" but seldom is heard the name of an economist whose demonstration of the fallacy is considered authoritative and canonical. That's because those who make the fallacy claim don't know from whence it came or how it got here. They credit the claim without investigating its history or its consequences. Origins and authorship are of no more concern to claimants than evidence, coherence or consistency.

"In professional life," advises a Université de Liège (2012) webpage on academic ethics:

- Participating in the production of academic or scientific knowledge notably involves taking into account the results of previous work and measuring its value and impact, in order to provide it with an extension and continuation. It thus involves inscribing oneself in **a chain of knowledge production**, which justifies the necessity of making explicit reference to the works consulted.

- Providing the proof of what is being written and **offering the reader the means of verifying the information used** in a work are indispensable to giving credibility to a text, a project, an argument, etc. [emphasis in original]

Production, accounting and value: these are terms that could refer to economic activity as readily as to academic discourse. Today, when academic *and technocratic* discourse guides, shapes, constrains and regulates economic exchange and distribution then the distinction between intellectual integrity and financial probity begins to blur.

The modern economy runs on credit and credit entails credibility. Credit – which in its historical emergence depended on the integrity, accountability, judgment and collateral of the landed gentry, wealthy merchants, financiers and government officials – now relies crucially on technical analysis by experts. Inevitably some of that analysis will be flawed and erroneous. That's life. But some, such as the lump-of-labor fallacy claim, are fraudulent – as phony as a three-dollar bill. Especially when such counterfeit claims disparage, *dis*credit and seek to exclude legitimate opinion and analysis from policy debates, they undermine the foundations not only of academic discourse but of credit, economic exchange and distribution. Given that context, even basic academic research ethics – such as properly acknowledging works consulted and independently assessing the reliability of sources and sufficiency of their evidence – possess an ethical dimension beyond the purely academic.

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