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The Response to Neo-Veblenian Economic Theory

Thomas G. Brown Jr.

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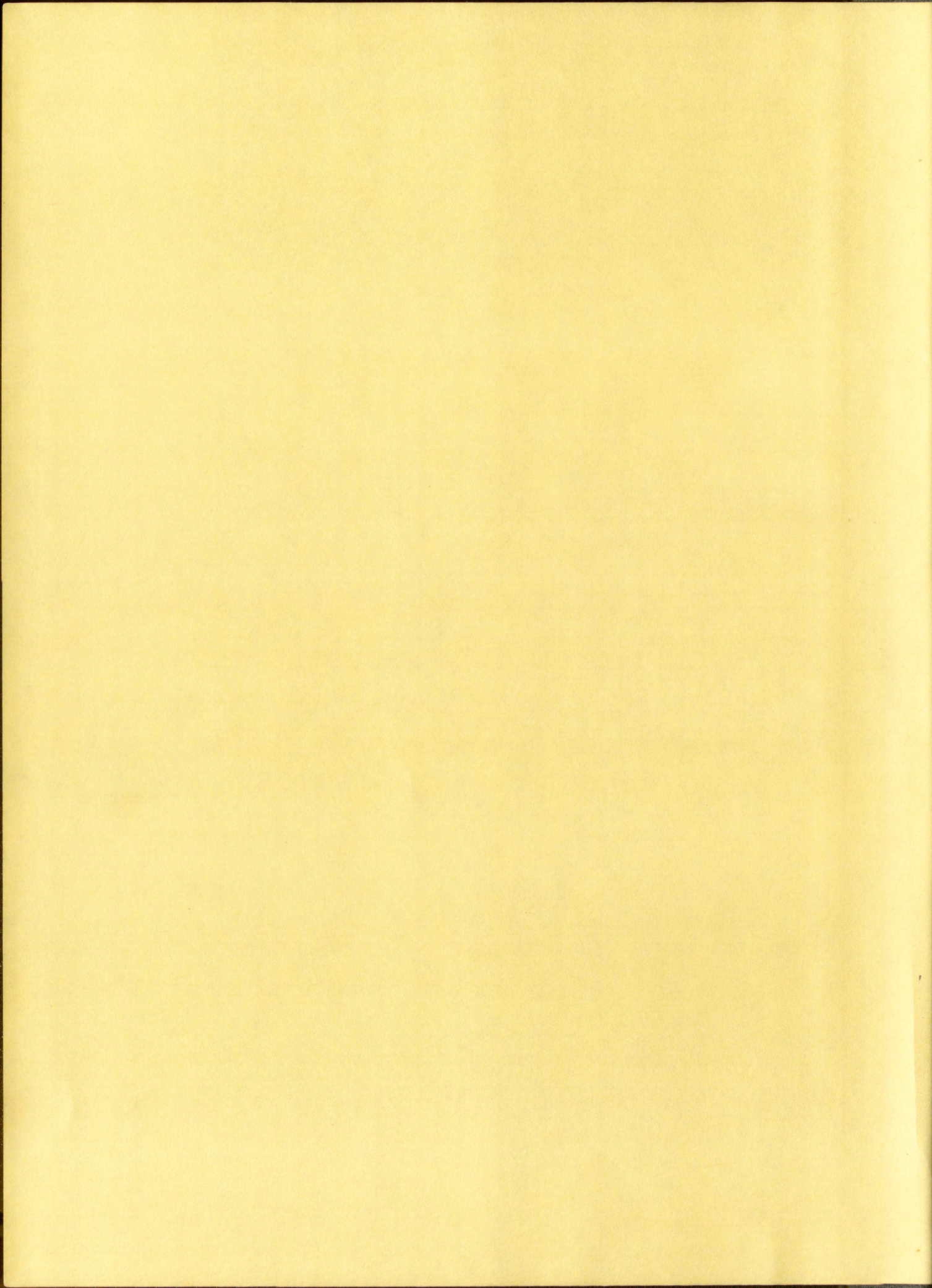
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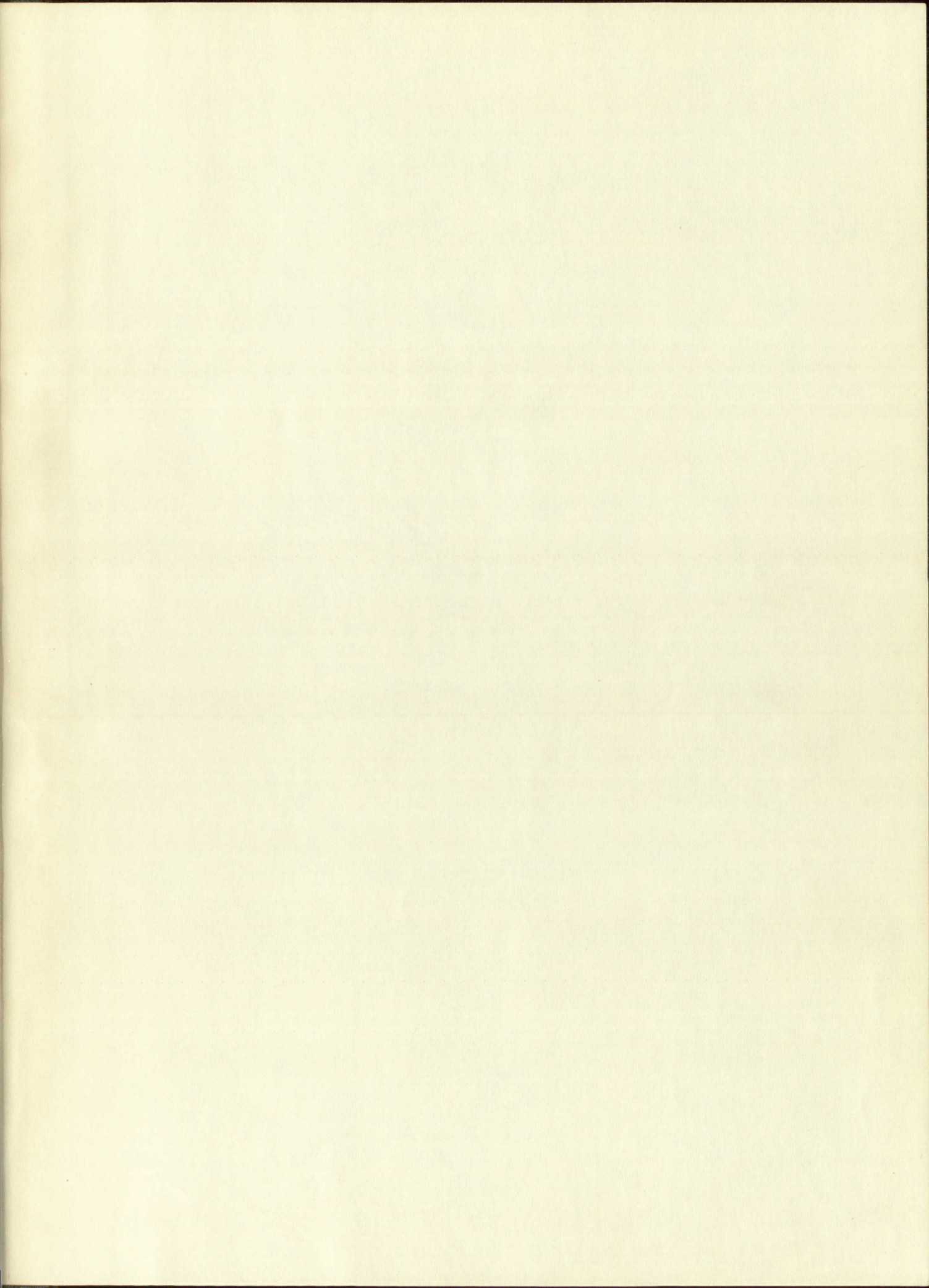


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THE RESPONSE TO NEO-VEBLENIAN ECONOMIC THEORY

By

Thomas G. Brown, Jr.

A Thesis

Submitted in Partial Fulfillment of the
Requirements for the Degree of
Master of Arts in Economics

The University of New Mexico

1955

THE RESPONSE TO ISO-TETRAHIAL ENDOGENIC THERM



MILERS BATES
E Z E R A S E
BY
GOTTON SUMMIT

A Thesis

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This thesis, directed and approved by the candidate's committee, has been accepted by the Graduate Committee of the University of New Mexico in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

E. Casteller
DEAN

5/24/1955
DATE

Thesis committee

David Hamilton
CHAIRMAN

Merze Lubbock

Julian S. Duncan

This thesis directed and approved by the candidate's committee has been accepted by the Graduate Committee of the University of New Mexico in partial fulfillment of the requirements for the degree of

MASTERS OF ARTS

[Signature]
NAME

5/24/1952
DATE

Thesis committee

[Signature]
CHAIRMAN

[Signature]

[Signature]

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INTRODUCTION

Much of the recent literature of institutional economics has placed a high order of importance on demonstrating the essential unity of twentieth century American heterodoxy. This seeking out of unifying threads has speeded the development of general principles of institutional economics by crystalizing what John Gams has called "unrecognized. . . rather than overtly acknowledged" premises.¹ Calling attention to these

1. Gams recognizes only one premise, but his conception of the "hidden premise" is applicable to other underlying ideas. John Gams, Beyond Supply and Demand: A Reappraisal of Institutional Economics (New York: Columbia University Press, 1946), p. 11.

unifying premises, however, also calls attention to the fact that there are a number of different premises and that different institutionalists have not been equally aware of the same ones. This suggests a likely basis for distinguishing between different variants of institutional economics.

A distinct variant of institutionalism has emerged, roughly, since World War II. Its obvious characteristics are its newness and its theoretical character. However its newness is not definitive; it is not the only variant of institutional economics currently being propounded, and it was tentatively outlined as far back as 1938.² Nor can it be easily set apart

2. Clarence E. Ayres, The Problem of Economic Order (New York: Farrar and Rinehart, 1938)

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A distinct variant of institutionalism has emerged, roughly, since World War II. Its obvious characteristics are its narrowness and its theoretical character. However its narrowness is not definitive; it is not the only variant of institutional economics currently being pronounced, and it was tentatively outlined as far back as 1938.² Nor can it be easily set apart

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by its emphasis on theory. Some of the thinking of John R. Commons, for example, can be shown to be unrepresentative of this category of institutionalism yet could not reasonably be called untheoretical. The identifying difference between this latter-day institutionalism and the rest of institutional economics lies in the peculiar nature of its theory as well as in the emphasis it places on theory.

The peculiarity which identifies this theory is its conception of the nature of culture and its recognition of important corollaries following from this conception. This way of viewing culture was only vaguely employed in the thinking of earlier institutionalists other than Thorstein Veblen. It constitutes the general principle which gives unity to this variant of institutionalism and is one of the "hidden premises" which ties this variant to all of institutional economics.

Because Veblen's distinction between technological and ceremonial aspects of culture provides the basis for its first principle, the term neo-Veblenian will be used as a convenient short-hand device to designate this distinct variant of institutional economics.

Neo-Veblenian theory is characterized by all of the qualities suggested by the phrase "system of theory"; it is comprehensive, well integrated, positive and theoretical. It concerns itself with all of the major areas of inquiry generally included in other systems of economic theory as well as those which have engaged the attention of post-Keynesian standard theory. Under these circumstances one would expect to find a substantial measure of interest in neo-Veblenian theory among all economists. Yet it has not been accorded extensive consideration. It has received little notice or discussion and even less specific reply. This response is out of

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keeping with the usual response of economic theorists to new, comprehensive theory and seems to call for systematic explanation.

The purpose of this study is to develop an explanation for the limited attention given neo-Veblenian economic theory by standard theorists.

This explanation will bring together a number of contributory factors, many of which arise from the difference between the intellectual orientations of institutional and standard economics or from the fact that neo-Veblenian theory involves departures from traditional attitudes towards economics. These have not been unnoticed, but one of the most important explanations has not been given systematic statement nor supported by organized evidence. This hypothesis is that the comment on the ideas which formerly dominated institutional economics conditions the attitude of non-institutionalists to neo-Veblenian theory to an extent which all but precludes its being given serious consideration. Demonstration of this hypothesis accounts for much of the following material and may be considered the central thesis of this study.

After attempting to establish the existence of the two conditions which define the problem; i.e. after showing that the nature of neo-Veblenian theory is such that it should be expected to attract substantial attention and that this has not been forthcoming, the argument will proceed on the following sequence of propositions:

1. Specific criticism has not demonstrated that neo-Veblenian theory is untenable; it is not being disregarded because it has been conclusively refuted.
2. Partial explanation lies in the reluctance of standard economists

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1. Specific criticism has not demonstrated that neo-Vedantism

theory is untenable; it is not being disregarded because it

has been conclusively refuted.

2. Partial explanation lies in the reluctance of standard economists

to wander far from traditional ways of thinking about economics.

3. The orthodox judgement of the institutionalism which preceeded neo-Veblenian theory was uniformly adverse and extraordinarily final.
4. Many institutionalists still define institutional economics exclusively in terms of the ideas which formerly dominated it.
5. This results in identifications of neo-Veblenian theory with that which has been rejected and "buried in the graveyard of discarded economic theories" and further limits its appeal.

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CHAPTER ONE

NEO-VEBLENIAN THEORY

The aspects of neo-Veblenian theory discussed below have been selected on the basis of coverage of what standard theorists consider the basic problems of economics as well as on the basis of their own importance. Although use of these criteria results in near exclusion of ideas other than those conspicuously associated with Professor C.E. Ayres, it should not be supposed that others have not participated in the development of this new body of theory or that acceptance of these ideas is confined to Professor Ayres.¹ He has, however, given these ideas their most systematic

¹Cf. J.W. Cohen, "Technology and Philosophy," Colorado Quarterly, III(1954). Anticipating the question, "Who, besides yourself, holds these views?", Ayres answers, ". . . the important thing is not agreement or disagreement among persons, but rather logical relationships among ideas." C.E. Ayres, "The Co-ordinates of Institutionalism", American Economic Review, XLI (1951), 5h.

statement, and his writing has received most of what comment there has been on neo-Veblenian theory. Nor should it be supposed that consistency with Ayres' thinking defines neo-Veblenian theory. What does define it is consistency with the basic propositions which flow from the conception of culture suggested by Veblen and sharpened largely by Ayres. Finally, it should be emphasized that many of the ideas developed by earlier institutionalism and some developed by standard economists are not inconsistent with nor rejected by neo-Veblenian theory.

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Thorstein Veblen's distinction between "dramatic cosmology and folk legends" on the one hand and "matter-of-fact knowledge" on the other underlies all of neo-Veblenian theory. As aspects of culture, the latter, technology, and the former, ceremonialism, together encompass all features of a culture. All elements of all cultures partake of the nature of both of these aspects, but some are characterized by one almost to the exclusion of the other. Those elements belong predominantly to the area of technology are those tools which have few non-instrumental properties and those ways of thinking and organizing and techniques of doing things which promote the use and development of these tools.¹ Those elements of culture which are

¹"It is not only mean and humble tools - wrenches and screwdrivers - that constitute technology. Our technology embraces cyclotrons and electronic microscopes, tensor analysis and space-time relativity, Grimm's law and the concept of the frontier." C.E. Ayres, "The Role of Technology in Economic Theory", American Economic Review, XLIII (1953), 28.

largely ceremonial are the notions, material effects², habits of thought,

²Most of the "final" objects, those not ordinarily thought of as tools, will be seen to be means (tools) in the ends-means continuum discussed below.

practices and organizational arrangements which survive in spite of the fact that they do little to further the development of that which is predominantly technological. Such ingredients of culture uniformly operate to support the existing hierarchy of status. This characteristic of ceremonialism will be discussed at length in the second section of this chapter.

Economic theory growing out of employment of such concepts may be

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discussed at length in the second section of this chapter. Economic theory growing out of enjoyment of such concepts may be

expected to come up with answers to questions in economics which are quite different from those provided by standard theory, but the important point is that its answers apply to the same questions which engage the attention of non-institutional theorists.

One of the most critical of these questions is that of the nature of economic change. This question is closely tied to the problem of fluctuations in the level of economic activity, and as this problem has received increased attention from standard theory, explanation of change has become one of the major questions of that theory.

However, most economists would probably agree that the central problem of economics is that of finding intelligibility in the apparent disorder of economic activity.

Standard theory has sought and still seeks the answer to this question in the behavior of prices. Since price seemed uniquely suitable for measuring intrinsic value, early standard theory attempted to relate the two. Though standard theory no longer professes to be concerned with valuation, the question is necessarily encountered in all discussion of economic planning.

The problems involved in the three questions of course exclude some of the things which occupy the attention of standard economists, but if it can be shown that these three broad areas are dealt with in a fresh way by neo-Weblenian theory, a strong initial basis for expecting a wide response will be considered to have been established.

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which goods exchange for each other in the market."³ According to this

³Abba Lerner, Review, The Theory of Economic Progress, American Economic Review, XXXV (1945), 162.

view, value theory must concern itself with explanation of what determines price. But this has not always been the case. The labor and cost of production theories of value sought to explain value-in-use, or real value, as well as value-in-exchange. The subjective and subjective-cost of production explanations, however, recognizing the irrationality of wants, abandoned this attempt and retreated to the position that "Things are 'valuable' because someone thinks they are, and for no other reason."⁴

⁴Kenneth E. Boulding, Economic Analysis (New York: Harper Brothers, 1948), 24

Under this nihilistic conception, valuation is held to be outside the jurisdiction of economics.

However, standard theory does engage in valuation. It holds that at a position of general equilibrium welfare is maximized. Valuation is the process of grading that which is desired (welfare), and the idea of grading welfare is necessary to the idea of its being maximized. Thus, rather than engaging in valuation of specific goods, standard theory sets value on different combinations of goods, and it sets highest value on those combinations which would be produced at positions of general equilibrium. Standard theory is quick to deny this. It insists that it is speaking of welfare within the limits of given wants and given distributions of income and, accordingly,

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The market mechanism is the vehicle by means of which the economy is conceived to approach the state of general equilibrium, and the market mechanism contemplated by equilibrium theory operates unrestrained by labor unions or governments as well as monopoly. This means imposes narrow limits on the range of possible patterns of income distribution. It also affects the pattern of wants which underlies effective demand by inhibiting cultural change.⁵ Thus by setting maximum value on the competitive market

⁵This effect will be discussed in the last section of this chapter.

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The normative implications of equilibrium theory, the core of standard theory, are denied by such statements as "equilibrium is just equilibrium."⁶ and "The critique of ends- i.e. the study of what are the

⁶Lionel Robbins, The Nature and Significance of Economic Science (London: McMillan, 1935), 143.

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The neo-Veblenian theory of value should be expected to attract the attention of standard economists because they, no less than theologians, are concerned with welfare. If economists choose not to default by advocating the policy of drift implicitly recommended in equilibrium theory, they must make evaluations of suggested modifications of the market mechanism, and in doing so, they have no criterion of welfare other than the idea of utility. And utility rests in part on irrational wants which have no validity other than that provided by the mores of the culture.

Neo-Veblenian value theory provides a criterion of welfare whose validity is grounded in valuations made by all cultures rather than those of a single culture. Every society places a high value on its accumulation of tools, and while this by itself proves nothing, it does reenforce the instrumental theory of value which provides the basis for the neo-Veblenian criterion of welfare.

The instrumental theory of value⁸ holds that there is a rational basis for valuation. This alternative to cultural relativism is developed

⁸The instrumental theory of value is given formal statement by John Dewey in Theory of Valuation, Vol. II, No. 4, International Encyclopedia of Unified Science (Chicago: The University of Chicago Press, 1939)

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briefly as follows. Many "ends" are achieved by "means" which take the form of generalized rules for the use of tools and materials. These generalizations are capable of being empirically tested and valued according to the degree to which such testing shows them to be effective. These ways of doing things are employed because certain consequences are desired, but these consequences are themselves sought in order that further consequences be forthcoming. As stated clearly by Dewey,

In all the physical sciences (using 'physical' here as a synonym for non-human) it is now taken for granted that all effects are also causes, or stated more accurately, that nothing is final in the sense that it is not a part of an ongoing stream of events. If this principle, with the accompanying discrediting of belief in objects that are ends but not means, is employed in dealing with distinctive human phenomena, it necessarily follows that distinction between ends and means is temporal and relational.⁹

⁹Ibid., p. 243.

If means are viewed as ends-in-view in an ends-means continuum, and if the servicibility of means can be verified by observation, then value, corresponding to the degree of servicibility, can be rationally set on these ends-in-view.

Those articles and ways of doing things upon which highest value would be placed under this system of valuation comprise technology, those elements of culture which are supported by matter-of-fact evidence of serviceability rather than by moral exhortation. This criterion of value is the criterion of welfare which neo-Weblenian theory furnishes those who recognize the necessity for planning, and this includes almost all economists to some degree. The common notion that planning must necessarily

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be arbitrary is challenged by the proposition that a criterion of welfare is available in the technological process, and this challenge could reasonably be expected to have provoked substantial discussion.

ECONOMIC ORDER

The central concern of standard theory has been to discover some pattern of order in economic activity, and much of its appeal arises from the fact that it appears to have done so. Because the classicists looked upon economic life as a matter of buying and selling, they sought explanation for economic order in the behavior of those engaged in these activities. The classical explanation rested on a view of human nature under which it was supposed that the individual's capacity to perceive and weigh advantage and disadvantage would cause him to behave reasonably and, hence consistently and predictably. This conception of human nature also held that the advantage weighing apparatus would direct all activity in the economic sphere toward the ultimate goal of consumption. It then proceeded to explain how businessmen organize and employ scarce resources to fulfil these consumption objectives while operating under conditions of unrestrained competition.

Neo-Veblenian theory does not deny that some business decisions may be explained in terms of the causal relationships which, according to classical theory, effectuate economic order, and it agrees that much of economic life is orderly. However, it submits that most of the order which is found in economic activity is occasioned not by business decisions but by the matter-of-fact nature of the technological process.

be arbitrary as evidenced by the persistence of a certain set of values

is available in the technological process, and this explains why

necessarily be expected to have provided substantial direction

ECONOMIC THEORY

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The classical explanation rested on a view of human nature under which it

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Neo-classical theory does not deny that some business decisions

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economic life is orderly. However, it doubts that most of the order which

is found in economic activity is occasioned not by business decisions but

by the matter-of-fact nature of the technological process.

The decisions which are made by those engaged in making goods are based on judgements warranted by effects which are subject to objective appraisal. These decisions are peculiarly free from the aggressiveness which introduces disorder into the decisions of those engaged in making money. Since the character of the goods making process is determined by these instrumental decisions (which encompass skills) and by the nature of available tools, this process proceeds on an orderly, matter-of-fact basis.

While standard theory sees business decisions as the source of economic order, neo-Weblenian theory holds that they are responsible for as much disorder as order. Its rejection of the standard explanation of order rests on three propositions. First, it denies the validity of the hedonistic psychology underlying standard theory and employs a behavioristic conception of human psychology under which human activity is understood to be directed by cultural values.

Secondly, it points out that few markets are competitive. Much has been made of these two points by earlier institutionalists, and, by themselves, these criticisms go far toward invalidating the explanation set forth by orthodox theory.

In fact this criticism has been followed by considerable revision on the part of the standard theorists and it is argued that the revisions regarding monopolistic competition have supplied a pattern of orderliness respecting this alleged shortcoming. It is also held that businessmen, as such, usually exhibit fairly rational behavior even though hedonism might be shown to be untenable. Neo-Weblenian theory, however, suggests that many business decisions, though properly considered rational in so far as they

The decisions which are made by those engaged in making goods are based on judgments regarding the utility which are subject to objective appraisal. These decisions are generally free from the aggressiveness which influences disorder into the decisions of those engaged in making money. Since the character of the goods making process is determined by these instrumental decisions (which encourage selfish) and by the nature of available goods, this process proceeds on an orderly, matter-of-fact basis.

While standard theory sees business decisions as the source of economic order, neo-Hobbesian theory holds that they are responsible for as much disorder as order. The rejection of the standard explanation of order results in three propositions. First, it denies the validity of the hedonistic psychology underlying standard theory and replaces a behavioristic conception of human psychology under which human activity is understood to be directed by cultural values. Secondly, it points out that law networks are competitive. Much has been made of these two points by earlier institutionalists, and by themselves, these criticisms go far toward invalidating the expansion set forth by orthodox theory.

In fact this criticism has been followed by considerable revision on the part of the standard theorists and it is argued that the revisions regarding non-competitive competition have supplied a pattern of orderliness respecting this alleged shortcoming. It is also held that businessmen, as such, usually exhibit fairly rational behavior even though hedonistic might be shown to be untenable. The Hobbesian theory, however, suggests that any business decisions, though properly considered rational in so far as they

are consciously designed to achieve certain objectives, often register as much concern with status preservation as with profit maximization and eventual consumption. This proposition is developed out of the following corrolaries to the idea of cleavage between technology and ceremonialism.

Ceremonialism is grounded in myth and legend; ideas which survive though unconfirmed by science, i.e. not demonstrated to promote technological progress, can survive only if they have the moral force of legend. Status, like other aspects of ceremonialism, is rooted in myth. It is based, according to neo-Weblenian theory, on the life-force myth. The pervasiveness with which some conception of a mystical source of moral stature is held in primitive societies suggests that status investiture in all societies takes place as a result of what is thought to constitute partaking of this life-force. According to Ayres, "the whole system of status rests on the assumption that different orders of society possess different degrees of mystic potency."¹⁰

¹⁰C.E. Ayres, The Theory of Economic Progress (Chapel Hill: University of North Carolina Press, 1944), p. 166. Ayres suggests that this relationship is generally unrecognized "because it is concealed from common observation by the state and law." "Since all rights and obligations are defined by law and since all titles to property, citizenship and the like derive ultimately from the state, this is ordinarily the end of the matter, especially in communities where the state has come to be conceived as the will of the people." Ibid., p 167.

Whether such myth survives in some form in Western Industrial societies or is important only in its vestigial effects, this explanation, in principle, rules out displacement as the method by which higher levels in the hierarchy are gained. But conflict nevertheless arises. When

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aspects of the status system are recognized to be incompatible with technological progress their social usefulness is questioned and they tend to be abandoned by society.

Those favored by the status system, however, can resist such decomposition. Since the status hierarchy is reflected in social organization, the coercive power which enforces the existing organizational structure may be employed against the forces attacking the status system. Action undertaken to preserve status takes place in those areas of social organization affecting economic activity as well as elsewhere. Thus, ends in view other than the maximization of profit and minimization of losses which, under standard theory, give intelligibility to economic activity, are involved in business decisions and may sometimes be weighed more heavily than profit and loss prospects. The rational entrepreneurial decisions which are thought to organize resources to meet society's wants are tempered by status defensive strategy as well as strategy designed to gain or maintain monopoly position.

All of this is more than a continuation of the assault on the standard theory of economic activity. The idea that power is employed to preserve status, as well as to eliminate competition, augments the rationale with which John Gams supported his "coercion principle."¹¹

¹¹Gams holds that "creating or escaping a coercive situation" typically forms the basis for business decisions. Op. cit., p. 13.

Thus, neo-Weblenian theory proposes that what order exists in the economic life of capitalistic industrial societies is the outcome chiefly

regards of the status system are restricted to be independent with respect to logical progress their social conditions in general and the way they are determined by society.

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ECONOMIC PROGRESS

The state of the industrial arts, like wants, was taken as primary data in classical economics. Since technology was outside the province of economic inquiry, the classicists looked upon economic progress as a process of accumulation of tools rather than tool improvement. At their hands, accumulation of capital goods was identified with accumulation of pecuniary funds.¹² Although standard economists deny that they are unaware

¹²See David Hamilton, Newtonian Classicism vs Darwinian Institutionalism (Albuquerque: University of New Mexico Press, 1953) pp. 106-9. Of course, under Say's law of markets there could be no "accumulation" of savings. If current savings did equal current expenditures on capital goods, the level of the former would be a measure of the volume of the latter. The fallacy lies in the fact that accumulated or old savings were thought to bear the same one-to-one relationship to creation of capital goods.

of the role technology has played in economic progress,¹³ they have not

¹³"But, in fact, some of the staunchest defenders of absolute capitalism, such as Carl Snyder, were fully aware of the fact that not the thrifty capitalist, but the scientists and engineers, were the real creators of the system. . . ." J. M. Buchanan, Review, The Industrial Economy, Journal of Political Economy, LX, (1953), 376.

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disputed the proposition that "the rate of technical progress is, therefore, limited by the conditions which limit the rate of accumulation of

capital."¹⁴

¹⁴Boulding, op. cit., p. 654.

This raises a problem which has not been resolved to the satisfaction of most standard economists. Keynesian revisionism has resulted in the clustering of standard economists around three positions - refusal to ascribe reduced economic activity to disparity between current savings and investment, emphasis upon investment and emphasis on consumption. For those holding the first view there is no problem, but the other two are necessarily looked upon as choices in favor of either stability or progress, for measures designed to stimulate investment are commonly recognized to operate less reliably against savings gaps than those designed to increase consumption, and such increase is incompatible with progress as explained by standard theory. Any position on the spectrum of combinations of those two views must also be looked upon as a compromise, and standard post-Keynesian theory provides no basis for evaluation of these different combinations. By introducing an alternative explanation of economic progress, neo-Veblenian theory offers a resolution to the problem of stability versus progress.

Cultural change is accompanied by change in the relative importance of technology and ceremonialism. This leads to the idea that the nature of change in one is different from that found in the other, and the fact that both are shared by many features of a culture suggests the idea that change in one involves change in the other. The neo-Veblenian explanation of economic progress and cultural change turns on these two ideas.

THE
EFFECTS OF
INVESTMENT

This raises a problem which has been reserved to the end of the chapter of most standard economists. Investment expenditure has resulted in the clustering of standard commodities around some central position - namely, in a sacrifice reduced economic activity to diminish the amount of investment, and to invest, expands upon investment, and maintains or increases. For those holding the first view there is no problem, but the other two are necessarily looked upon as changes in favor of either stability or progress, for resources destined to maintain investment are normally recognized to be scarce and reliably against savings up to those destined to increase investment, and such increase is inseparable with progress as explained by standard theory. Any position on the matter of investment of those two views must also be looked upon as a compromise, and a standard post-positivist theory provides no basis for evaluation of these different combinations. By introducing an alternative explanation of economic progress, neo-classical theory offers a resolution to the problem of stability versus progress.

Cultural change is accompanied by change in the relative importance of technology and capital. This leads to the fact that the nature of change in one is different from that found in the other, and the fact that both are shared by any feature of a culture suggests the idea that change in one involves change in the other. The neo-classical explanation of economic progress and cultural change turns on these two ideas.

Change in the area of technology is held to be dynamic. Technological change is said to tend to proceed automatically and at an increasing rate of increase. These characteristics arise from the nature of technology. Technological innovation consists of combining existing tools and accordingly is likely to take place whenever different tools exist and those engaged in their use are familiar with both. But more is involved than a high degree of likelihood; neo-Veblenian theory holds that such tool combination "does rest on some kind of inner law of progress."¹⁵

¹⁵C. E. Ayres, The Theory of Economic Progress, p. 112.

Of course almost all of these combinations are initially conceived in the minds of men, and no amount of listing of independent and simultaneous discoveries can confirm the existence of an "inner law of progress." Yet such discovery, coupled with recognition of the extent to which understanding of the inventive process is obscured by the Western cult of individualism and the mythical character of many accounts of invention, makes tenable the position that "The coexistence of these objects constitutes a possibility of combination which transcends the acts of any individual. It is in this sense that inventions seem 'bound' to occur."¹⁶

¹⁶Ibid., p. 115

If this interpretation of innovation is correct, it follows that technological progress tends to advance at a continuously accelerating

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ibid., p. 115

If this interpretation of innovation is correct, it follows that technological progress tends to advance at a continuously accelerating

pace, for the number of possible tool combinations increases enormously each time one new tool is invented. Moreover, technological advances affect transportation and communication, and the resulting acceleration of interchange of tools hastens innovation by increasing the number of tools which may be drawn upon to create innovations. Finally, acceleration of technological progress is further explained as the result of the progressive weakening of institutions inhibiting change which accompanies technological progress.

Ceremonialism is held to be essentially static. The ways of thinking, organizing and doing which fall into this area of culture survive because moral exhortation is employed to preserve them, and because they can not be objectively justified, this exhortation must appeal to the authority of legend. Legend is inherently resistant to alteration and since legends provide the sole justification for ceremonialism, they also determine its nature. Change does take place in this aspect of culture, but according to neo-Weblenian theory only when induced by change in technology. When confronted with contradictory matter-of-fact evidence supplied by technological progress, the myths underlying the aspects of ceremonialism tend to be recognized and both myth and ceremonial tend to be altered or abandoned. This decomposition of ceremonialism is accordingly subject to the same acceleration principle which affects technological progress.

However, ceremonialism can also affect technological change. It can inhibit and even halt economic progress. While, by definition, ceremonialism does not necessarily retard progress, some elements of ceremonialism

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However, ceremonialism can also affect technological change. It can inhibit and even halt economic progress. While, by definition, ceremonialism does not necessarily retard progress, some elements of ceremonialism

in all cultures do act as a brake on the dynamic aspect of culture. Such "imbecile institutions" have almost completely arrested technological change in some cultures and are present to some extent in all societies. The organizational devices contrived to preserve status are the most prominent ceremonials of this type in Western industrial societies, but habits of thought operating directly on the tool combining and using processes, as well as those supporting these organizational devices, restrain technological progress. The arch type of this ceremonial is the organizational structure under which those who have demonstrated an ability to buy cheap and sell dear are empowered to decide what type and how much technological activity is to be undertaken by society.

Under this analysis, both the state of technology and its rate of progress in any society may be explained. The neo-Veblenian theory of economic progress is essentially optimistic but takes into full account the regressive forces of culture and does not rule out the possibility of declining rates of progress or regression or absence of change. Because it explains economic progress in terms other than saving and shows that accumulated savings operate permissively rather than causally, this theory leads to a policy recommendation which resolves the progress versus stability dilemma with which most standard economists imagine society to be confronted.

Redistribution of income by means of steeply progressive income taxation is recognized to reduce fluctuation in the level of economic activity and, pushed far enough, precludes any departures from full employment of productive resources. The objection that this results in a smaller proportion of the community's resources being employed in the production

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of net additional machinery is countered by pointing out that a smaller proportion of the expanded productive capacity arising from economic stability may be expected to result in production of more machinery than would be produced under the relatively greater instability accompanying less equal distributions of income. Moreover, if a society whose technology is already considerably advanced made no net additions to its accumulation of capital goods, it could, according to the neo-Veblenian explanation, expect considerable economic progress to arise from technological innovation, especially if it took active measures to hasten the decomposition of "imbecile institutions." Redistribution of income has just this effect on inhibitory ceremonialism. As Gams has remarked, money is "a weapon of attenuated economic coercion." Insofar as social organization based on status tends to restrain technological progress, limiting the availability of this weapon for resisting status erosion accelerates alteration of such social organization and allows a proliferation of social organization instrumentally conceived.

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CHAPTER II

THE CRITIQUE OF NEO-VEBLENIAN THEORY

Ten years after the appearance of The General Theory, Keynesian economics was well represented in Principles texts. Ten years after being given systematic statement in The Theory of Economic Progress, Neo-Veblenian theory has found its way into none of these repositories of accepted thinking. This measure of the level of importance attached to this body of theory, however, furnishes no indication of the extent to which it has been given consideration by the profession. Appraisal of the amount of attention given ideas is necessarily difficult and inconclusive, but a few observations are suggestive.

No one has felt called upon to write a comprehensive reply on the order of Terborgh's attack on the theory of economic maturity. Only one article length discussion of this body of theory followed the publication of The Theory of Economic Progress.¹ During the last ten years

¹David L. Miller, "The Theory of Economic Progress," Southwestern Social Science Quarterly, XXV (1945).

it has been brought to the attention of the American Economic Association only twice, once as part of a discussion of institutionalism in general and once in connection with the subject of technology.² In the former

²C. E. Ayres, "The Role of Technology in Economic Theory" American Economic Review, XLIII(1953). Ayres, "The Coordinates of Institutionalism", ibid, XLI (1951)

COLLECTION CONTENT

REVIEWS

The issue after the review of the book 'The Economics of the Firm' by David L. Foray, published in 1957, was well received. The book is a study of the firm as a unit of production, and its behavior in the market. The author's approach is to treat the firm as a 'black box' which takes inputs and produces outputs. This is a very simple and elegant way of looking at the firm, and it has been widely accepted. However, this book of theory, however, contains a number of chapters which it has been considered in the past. The amount of attention given to the firm is not as great as it should be, but a few chapters are included. No one has failed to notice a number of chapters in the order of things, and the theory of the firm is a very important one. The book is a study of the firm as a unit of production, and its behavior in the market. The author's approach is to treat the firm as a 'black box' which takes inputs and produces outputs. This is a very simple and elegant way of looking at the firm, and it has been widely accepted. However, this book of theory, however, contains a number of chapters which it has been considered in the past. The amount of attention given to the firm is not as great as it should be, but a few chapters are included. No one has failed to notice a number of chapters in the order of things, and the theory of the firm is a very important one.

David L. Foray, 'The Economics of the Firm', Social Science Quarterly, XLV (1957).

It has been brought to the attention of the author that the book is only twice, once as part of a historical investigation, and once in connection with the subject of technology. In the future

S. J. Foray, 'The Economics of the Firm', Economic Review, XLV (1957). Foray, 'The Economics of the Firm', XLV (1957)

case all discussion concerned itself with papers other than the one propounding the neo-Weblenian position. A recent examination of the teaching of economics in American colleges carried out by the American Economic Association makes no mention of institutional economics of any variety.

The first explanation for this state of affairs that comes to mind is the possibility that neo-Weblenian theory has met with devastating refutation, that its basic propositions have been demolished, or that some fatal shortcoming has been found in the working out of the implications of these propositions. The following pages will attempt to show that such has not been the case and, accordingly, that explanation for the nature of the response to neo-Weblenian theory must be sought elsewhere.

Much of the critique of this body of theory has skirted around the real issues. It suggests that misunderstanding of standard theory accounts for the wholesale revision proposed in neo-Weblenian writing. This inference appears repeatedly and is typically "supported" by displays of quotations whose meanings are obscured by absence of context.³ A

³See, for example, Francis M. Boddy, Review, The Problem of Economic Order, American Economic Review, XXVIII, (1938), 327. Alfred Kuhn, Review, The Industrial Economy, ibid, XLIII (1953), 169. J. M. Buchanan, Review, ibid, Journal of Political Economy, LX (1952), 440.

second general reply is that neo-Weblenian theory is no more than an

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 The Industrial Revolution, 1911, 1, 1, 1-12.
 Ibid, Journal of Political Economy, 1911, 19, 1, 1-12.

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⁴Ayres takes the following position regarding this charge. "Qualifications regarding the preconceptions of standard economics which Ayres attacks that some economists are careful to stipulate are denied by others, who however make other qualifications of their own. In short we live, intellectually, in an age of mutually nullifying qualifications." "The Classical Tradition versus Economic Growth" (Paper read at the Spring meeting of the Southwestern Social Science Association, Dallas, April, 1955).

validity of which is unaffected by the strength of this charge.

There has been, however, some comment which has dealt with the neo-Veblenian analysis in terms of specific criticism. Because the amount of such comment is so limited, it will be possible to examine all of the essentially different arguments which actually come to grips with the positive content of this body of theory.

Most of the comment regarding the theory of value consists of slanted paraphrase of its conclusions rather than criticism of the propositions of the theory of value. Reviewing the Theory of Economic Progress Henry Hazlitt states:

. . . but as nearly as I can make out he is saying that value lies not in our own wishes or desires, but in machines. Regardless apparently of what they turn out. Machines, one gathers are not to be judged by the extent to which they forward the welfare of humanity, but as an end of their own - or rather as wonderful means to still further wonderful means. Technology exists to make tools to make tools. If we only keep redoubling our efforts we can forget our aim. His theory of progress inevitably recalls the old song "We don't know where we're going but we're on our way."⁵

⁵Henry Hazlitt, Review, The Theory of Economic Progress, Saturday Review of Literature, XXVII (1944), 38.

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Henry Hazlitt, Review, The Theory of Economic Progress, Harvard Review of Literature, XVII (1961), 35.

This passage reveals two serious misconceptions. It is implied that all things which can conceivably be turned out by machines are equally sanctioned by the neo-Weblenian criterion of welfare. This interpretation disregards the fact that machines can produce some things which promote technological development less than others, e.g. production of atomic bombs instead of atomic power plants. Assuming that production of one will lead to the same amount of further discovery as production of the other, there is no question about the relative value of the two to technology. If employed in warfare the bombs are of course of negative value. If stockpiled, they affect technological progress only in so far as their production, like all workmanship promotes innovation. Construction of power plants, on the other hand, promote technological progress by stimulating the use of other machines as well as those employed in the process of constructing the plant.

Hazlitt indicates that to "forward the welfare of humanity" is something different from making machines in order to make more machines. If the instrumental continuum involved only machines he would be right. But the continuum also involves skills, and these skills are exercised best by healthy, educated people. Thus, the criterion present in the objective of "keeping the machines running" calls for all aspects of "welfare", (i.e. education, preservation of life and health) except those which have only the validity they derive from the mores.

The following comment reveals further misgivings. A. B. Wolfe sees in the neo-Weblenian theory of value not only the threat of disregard for welfare, but of social regression.

This passage reveals two serious misconceptions. It is implied that all things which can conceivably be turned into machines are actually sanctioned by the neo-Weberian criterion of welfare. This interpretation disregards the fact that machines can produce some things which promote technological development less than others, e.g. production of atomic bombs instead of atomic power plants. Assuming that production of one will lead to the same amount of further discovery as production of the other, there is no question about the relative value of the two to technology. It is implied in welfare the scope and of course of negative value. If established, they affect technological progress only in so far as their production, like all workmanship promotes innovation. Construction of power plants, on the other hand, promote technological progress by stimulating the use of other machines as well as those employed in the process of constructing the plant.

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The following comment reveals further misgivings. A. H. Wolfe sees in the neo-Weberian theory of value not only the threat of disregard for welfare, but of social regression.

according to Ayres We exist for the technological process, rather than the reverse. Production is not for consumption. Holding to the social organism view, Ayres refuses to make the distinction between the individual and society. . . Thus, the individual is not an end. Ayre's philosophy could lead as well to fascism and a power system as to liberty and democracy.⁶

⁶A. B. Wolfe, Review, The Theory of Economic Progress, Political Science Quarterly, LII (1944), 623.

Whatever appeal this representation might have rests on the notion that an individual can be an end. An end is a final objective, something an individual might imagine himself to seek, but not something one may be. Apart from this error, the comment assumes that ends are unique without demonstrating any shortcoming in the instrumental conception of continuity. The fear of fascism evidenced springs from the confusion introduced by these two notions. The neo-Veblenian criterion of value is incompatible with the ceremonialism which supports the power coordinates of fascism, it is inconsistent with accomodation of economic activity to preparation for war, and it provides an alternative to arbitrary exercise of power by furnishing a standard to which government action may be required to comply.

Irving H. Siegel provisionally grants the validity of the criteria of welfare but questions its usefulness as a guide for government action.

He states:

Assuming that technology is indeed "the life process of mankind and the criterion of human betterment", how can we proceed further to agreement on the details of a "general economic and social policy" aiming at the maximum development and use of tools, institutions notwithstanding? If lethal weapons and dictatorships are ruled out, agreement is achievable only through resort to the

notions of marginalism, interpersonal comparisons of utility, social welfare functions, and the other paraphernalia of neo-classical economic and its close relatives. Where resources are limited, what other rules can there be for establishing the priorities of conceivable worthwhile projects.⁷

⁷Irving H. Siegel, Discussion, "Technology", American Economic Review, XLIII(1953), 308.

To continue to attempt to use measures of utility and welfare as these are conceived by "neo-classical economics and its close relatives" would be to continue to take wants as given data and tacitly to accept them as the basis of value. If marginalism is intended to denote marginal price analysis it would of course not be a serviceable device for measuring conformance with neo-Weblenian criterion of value, but could be usefully employed if intended to mean any analysis involving comparison of the effects of application of additional units of resources to different undertakings. And these effects can be compared. If, for example, it is necessary to decide between building a medical school and a steel mill, it is certainly no more difficult to estimate the relative effects on the technological process of more (and probably better) machines and of healthier machinists than it is to estimate relative magnitudes of happiness.

A different type of objection is registered in the following lines:

The trouble here lies in the failure to distinguish between the role of the observer outside our economy and the role of the political animal who is part of it. For the observer there is no "end" in our economy, but only a continuing process, which he may perhaps try to explain. The political animal, however, does himself have ends such as improving the welfare of the population or increasing their consumption or providing them

with social security, and is interested in existing and potential instruments for bringing about these ends.⁸

⁸Abba Lerner, op. cit., p. 163

By placing human activity and the most obvious evidence supporting continuity of ends and means on different levels of discourse, Professor Lerner attempts to dispose of the evidence, but the connection between individual desires and the continuity of economic activity creeps back in with the examples he uses to illustrate individual ends. Consumption and some degree of security are very obviously necessary to activities other than providing more consumption and security, and the effectiveness of these other activities increases as consumption increases and security is provided by society. Thus, continuity is unintentionally further illustrated in his examples. Increasing consumption operates as a means to more security and security stimulates consumption. The "ends" are also "instruments for bringing about these ends."

A. B. Wolfe sees a contradiction between the theory of value and the policy implications of the theory of progress.

There is no end or purpose to the "life-process" save the abstraction, continuity. At least this would be true did Ayres stick to his guns. But eventually he does not. Unconsciously he admits through the side door what he has kicked out the front. After all the technological process has an "end." With the removal of hampering institutional restrictions, especially the profit motive and accumulation of finance capital, we shall attain an economy of plenty. If this means anything, it means that the individual and consumption are restored as the raison d'etre of the whole instrumental process.⁹

⁹Wolfe, op. cit., p. 623.

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GOLDEN COMMENT

James Lerner, op. cit., p. 103

by placing human activity and the most obvious evidence supporting continuity of ends and means on different levels of discourse. Professor Lerner attempts to dispose of the evidence, but the connection between individual desires and the continuity of economic activity craves back in with the examples he uses to illustrate individual ends. Consumption and some degree of security are very obviously necessary to activities other than providing more consumption and security, and the effectiveness of these other activities increases as consumption increases and security is provided by society. Thus, continuity is unintentionally further illustrated in his examples. Increasing consumption operates as a means to more security and security stimulates consumption. The "ends" are also "instruments for bringing about these ends."

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There is no end or purpose to the "life-process" save the attraction, continuity. At least this would be true did I agree with his view. But eventually he does not. Unconsciously he admits through the side door what he has stated out the front. After all the technological process has an "end." With the removal of hampering institutional restrictions, especially the profit motive and accumulation of finance capital, we shall attain an economy of plenty. If this means anything, it means that the individual and consumption are restored as the raison d'être of the whole instrumental process.

Wolfe, op. cit., p. 623.

Why must it mean this? Removal of inhibitory institutions is not justified, under neo-Veblenian theory, by its affect on consumption, but by its effect on the productive process. Emphasis is placed on consumption not because it is the purpose of economic activity, but because its restriction inhibits economic activity and, consequently, use and development of machinery.

Systematic critical treatment of the neo-Veblenian theory of economic change is furnished by D. L. Miller in an analysis published in the *Southwestern Social Science Quarterly*. Apart from this criticism, only two distinct analytical replies have been forthcoming.

Frank H. Knight contends that:

The first fatal weakness of such a theory is its failure to explain decadence, which is nearly as conspicuous in historical fact as progress. (The paucity of absolutely lost arts, besides being exaggerated, is not in point; the fact of technical and material decline is conclusive)¹⁰

¹⁰Frank Knight, "Confusion on Morals and Economics", *International Journal of Ethics*, XLV (1935), 209.

Knight does not illustrate such decadence, but in elevating it to the same order of historical importance as progress, he suggests that he has in mind either the type of "decadence" which appeared in Italy in the sixth century or the type which began to characterize the culture of Islam at the beginning of the modern era, or both. In the latter case, the technology of the culture did not retrogress. It was simply outstripped by that of other cultures. If tools did indeed fall into disuse in Italy following the arrival of the Germanic tribes, there is no evidence

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Knight does not illustrate such decadence, but in elevating it to the same order of historical importance as progress, he suggests that he has in mind either the type of "decadence" which appeared in Italy in the sixteenth century or the type which began to characterize the culture of Japan at the beginning of the modern era, or both. In the latter case, the technology of the culture did not retrogress. It was simply outstripped by that of other cultures. If Japan did indeed fall into decline in Italy following the revival of the Germanic tribes, there is no evidence

that tools were destroyed or skills forgotten, and in the Western European locus of the industrial revolution there is evidence that they were combined with those of the invaders rather than destroyed.

W. N. Leonard also holds that history contradicts the theory of progress. He states:

Any theory of unilinear development runs head-on into serious obstacles; for example, hiatus in scientific achievement between Greek and Hellenistic science and the age of Galileo. Furthermore, as Schumpeter pointed out, the history of technical progress in recent centuries reveals great discontinuities and clusters of innovations whose introduction at irregular periods increases the amplitude of business cycle fluctuations.¹¹

¹¹W. N. Leonard, Discussion, "Technology", American Economic Review, XLIII (1953), 311.

Galileo's science was superior to that of the Greeks because he had superior tools, material and conceptual, to work with, and these tools were developed sometime between the two eras.¹² Schumpeter's

¹²See Lewis Mumford, Technics and Civilization (New York - Harcourt Brace & Co., 1934), p. 126.

innovations were dramatized by the capital outlay required to exploit them but were not necessarily the most critical developments in the cumulative process of technological progress. At any rate:

. . . these facts do not deny the existence of technology nor invalidate the analysis of technological development in terms of a continuous, cumulative, progressive process, any more than the fact that we do not fly off at a tangent to the earth's surface invalidates the principle of centrifugence. It means that other forces also are at work inhibitory

ceremonialism not that technological progress is an illusion."¹²

¹²Ayres, The Theory of Economic Progress, p. 121.

D. L. Miller questions the validity of neo-Veblenian theory of change on two grounds. He contends (1) that the distinction between technology and ceremonialism is fallacious, and (2) that exclusion of the role of "thinking" in the process of innovation fatally weakens the explanation of progress. Both charges are affected by misinterpretation of the concepts, technology and ceremonialism. The first indictment is developed by pointing out that "if it is true that institutions are always a hindrance to technological progress then it follows logically that the two processes can in fact exist apart from each other",¹³ and proceeding

¹³D. L. Miller, op. cit., p. 160.

to show that they cannot exist separately:

Each and every technological device whatsoever calls for its corresponding institution in which it can be applied. It may be that the old institution does not permit the new invention to operate, even as old roads do not permit the operation of automobiles travelling seventy miles an hour. Nevertheless automobiles cannot travel without roads - nor can they "carry on" so as to fulfill their "technological nature" without traffic laws, i.e., without institutionalized ways of behaving.¹⁴

¹⁴Ibid., p. 171.

Traffic laws are indeed institutions if institutions are "established

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1847, The Theory of Economic Progress, p. 131.

D. J. Miller questions the validity of neo-Vedantian theory of change on two grounds. He contends (1) that the distinction between technology and ceremonialism is fallacious, and (2) that expansion of the role of "thinking" in the process of innovation actually weakens the expansion of progress. Both changes are effected by differentiation of the concepts, technology and ceremonialism. The first indicator is developed by pointing out that "if it is true that institutions are always a hindrance to technological progress then it follows logically that the two processes can in fact exist apart from each other," and proceeding

130. J. Miller, op. cit., p. 130.

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131. ibid., p. 131.

Traffic laws are indeed institutions if institutions are "established"

ways of acting,"¹⁵ or "habitualized behavior,"¹⁶ but so also are tool

¹⁵Ibid., p. 173.

¹⁶Ibid., p. 168.

skills. This is obviously not the same category of cultural ingredients which neo-Veblenian theory contrasts with technology.¹⁷ This theory does

¹⁷Ayres uses the term institution to designate organizational arrangements which are essentially ceremonial. Instrumental organization, though "institutionalized," i.e., established, he distinguishes from institutions. This usage is consistent in neo-Veblenian theory and, among other things, distinguishes it from the rest of institutionalism. For example, Russel A. Dixon employs the term institutions to include technology. Economic Institutions and Cultural Change (New York: McGraw-Hill, 1941), pp. 269-327. The confusion arising from this usage is compounded by the designation "institutional economics." As Ayres remarks, "As a designation of a way of thinking in economics the term "institutionalism" is singularly unfortunate, since it points only at that from which an escape is being sought." The Theory of Economic Progress, p. 155f.

not hold that institutions, as the term is used by Miller, are confined to either category.¹⁸

¹⁸. . . whereas I was at some pains to convince my readers that they can be distinguished by analyses but of course never exist separately in fact." C.E. Ayres, "The Ordeal of the Social Sciences", Southwestern Social Science Quarterly, XXV (1945), 256f.

Miller supports his second objection by undertaking to establish that progress cannot be accounted for except in terms of "mind" and that the neo-Veblenian explanation of progress "fails to take account of the "creative" activities of "mind". Novelty, he goes to great lengths to demonstrate, means qualitative difference, and qualitative change cannot

ways of acting, or "habitualized" behavior, as we call it.

CONCEPTS VALUES MORALS

skills. This is especially true in the case of cultural practices which neo-Vedantism is concerned with. This is why we

17. It is clear that the idea of "habitualized" behavior is an arrangement which is essentially non-moral. It is a habit, though "habitualized," i.e., established as a habit, but it is not a habit in the sense of a habit of mind. This is why, in other things, distinguished by its habit of mind, we find, for example, musical habits and literary habits. The latter, in fact, is a habit of mind, and it is this habit of mind which is being referred to by the designation of a habit of mind. It is this habit of mind which is being referred to, and it is this habit of mind which is being referred to. The latter, in fact, is a habit of mind, and it is this habit of mind which is being referred to.

not hold that institutions, as the latter is used by Miller, are habits in other category.

18. . . . I am so sure that to observe is really to . . . they can be distinguished by habits and it is this habit of mind which is being referred to. In fact, "the habit of mind" is the habit of mind which is being referred to. Social Science Quarterly, 17 (1912), 200.

Miller suggests his second definition of institutions as habits that progress cannot be accounted for except in terms of habits, and that the neo-Vedantist explanation of progress is in the nature of a "creative" activity of habit. . . . It is this habit of mind which is being referred to. . . . demonstrates, as we have seen, that institutions are habits of mind.

be the outcome of combinations of that which already exists. This is not only unsupportable,¹⁹ but unnecessary, for it is designed to vindicate

¹⁹"Similarly it is possible to analyze water into its component parts, oxygen and hydrogen. Yet no one can sensibly contend that water is nothing but hydrogen and water." Davis, op. cit., p. 163.

affirmative reply to the question, "has man's mind anything to do with the synthesis of analytical parts so that the resulting effect is qualitatively different from these parts?"²⁰ This is explicitly granted by neo-Veblenian

²⁰Ibid., p. 167.

theory. Miller then reveals that the "metric system, the logical systems of thought, all definitions, etc." are among the "extraneous factors provided by men's minds," and insists that inclusion of such non-material tools in the concept technology is tautological.

Here let us point out once more that if Ayres intends merely to define "technology" as anything which makes for progress in society or in the amelioration of human wants, and if he intends to define "institution" as anything opposed to such progress, then indeed his book is a dictionary and not a consideration of facts.²¹

²¹Ibid., p. 175

The elements of culture which promote progress are distinguished from those which do not by shared characteristics. They partake of the nature of tools or of tool skills; non-material tools are employed in the same fashion in which material implements are used and are looked upon in

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²⁰ibid., p. 167.

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The elements of culture which promote progress are distinguished from those which do not by shared characteristics. They partake of the nature of tools or of tool skills; non-material tools are employed in the same fashion in which material implements are used and are looked upon in

the same matter-of-fact manner; their mode of change is the same; all elements of culture by definition assigned to this category are valued by all cultures. Similarly, that which, by definition, is excluded from this category has characteristics in common. It is grounded in myth and legend; like myth, its mode of change is one of decomposition; it rests on animistic interpretations of the nature of things; it reinforces prevailing status relationships. The significance of these sets of characteristics provides other than definitional difference. Furthermore, this distinction was developed independently by anthropologists on the basis of field research.²²

²²Cf., Gordon V. Child, What Happened in History, (New York: New American Library, 1946) and Bronislaw Malinowski, Magic, Science and Religion (Glencoe, Illinois: Free Press, 1948).

The arguments examined above constitute all that has been levelled against the aspects of neo-Veblenian theory which are peculiar to it (the effect on its response occasioned by objections applying to other variants of institutionalism will be considered later.) The arguments reviewed do not seem to be convincing enough to account for the limited response to this body of theory.

The objection may be raised that the rebuttal conceived privately and developed in unpublished discussion is overlooked. However, in view of the inconclusive nature of the published reply, it seems reasonable to expect such to have been published had it been more compelling.

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The arguments examined above constitute all that has been revealed against the aspects of neo-Vedantic theory which are peculiar to it (the effect on its response occasioned by objections applying to other variants of institutionalism will be considered later). The arguments reviewed do not seem to be convincing enough to account for the limited response to this body of theory.

The objection may be raised that the rebuttal conceived primarily and developed in unpublished discussion is overlooked. However, in view of the inconclusive nature of the published reply, it seems reasonable to expect much to have been published had it been more compelling.

CHAPTER III

" . . . A NEW WAY OF THINKING ABOUT ECONOMIC PROBLEMS"

In the preface to The Theory of Economic Progress, Ayres calls what is to be set forth "a new way of thinking about economic problems." If the way of thinking employed is not altogether new, it is unmistakably different from that employed by those largely responsible for the development of standard theory. This difference seems to account for much of the apathy which characterizes the response to neo-Veblenian theory. The force of this suggestion of course depends on the strength of the proposition that those who subscribe to the content of standard theory share the preconceptions which are embedded in this body of theory. This is highly unlikely in the sense that all who consider the concept of marginal revenue to be a valuable analytical tool must be assumed to subscribe to the overt hedonism underlying this concept, however, some of the preconceptions are so incompatible with the "new way of thinking. . ." that they must be consciously suspended while examining neo-Veblenian theory if those who are affected by them are to give thoughtful consideration to the content of this body of theory, and this imposes a serious limitation on the ability of most standard economists to do so.

The particular preconceptions which conflict with the approach underlying the development of the ideas described in the first chapter of this study are grounded in the efforts of Early Modern thought to develop alternatives to the answers provided by medieval theology. Two not unrelated results of this effort were British Empiricism and Newtonian

COLLECTION CONTENT
E Z E R V A S E

In the process of the study of the...
what is to be seen...
If the way of thinking employed is not...
different from that employed by...
sent of standard theory...
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Mechanism.

The continental Rationalists repudiated the subservience of philosophy to medieval theology by devising new explanations of thought and knowledge. Their failure to divest their systems of the dualism of the City of God and the City of Rome led to the more rigorous denial of the innate found in Locke and Hume. British Empiricism did not furnish a theory of value, but its scepticism and disavowal of innate (and therefore eternal) ideas logically proceeds to a denial of immutable values. In its matter-of-fact orientation, Empiricism can be said to be the precursor of American Pragmatism, but the Logical Positivism of today also stands in this tradition. As Gustav Bergman says, "Logical Positivism. . . thus appears today as the contemporary form of British Empiricism."¹ The

¹Gustav Bergman, "Logical Positivism", A History of Philosophical Systems, ed. by Vergilius Fern (New York: The Philosophical Library, 1950), p. 472.

identifying badge of Logical Positivism is its immovably obstinate rejection of the "metaphysical." Thus, positivist D. L. Miller insists, "The world must be conceived ultimately of natural stuff. . .; final causes must be relegated to the minds of men."²

²D. L. Miller, op. cit., p. 176.

Thus, not only was the intellectual climate in which orthodox economics developed shaped by the aversion to value speculation of the

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positivistic temper of mind growing out of Empiricism, but contemporary economists are assured by one of today's important philosophic movements that any discussion of valuation, no matter how objective, is metaphysical. This traditional attitude is reenforced by the mores nihilism growing out of cultural relativism and upholds the unequivocal position of standard theory illustrated by Kenneth Boulding's dictum on page 8.

The mechanistic view of the universe developed in the seventeenth century grew out of Deism, another manifestation of the renunciation of the middle ages. Under this view, an unchanging pattern of order whose rules of operation could be disclosed was held to pervade the universe and underly all phenomena. Dramatized by Sir Isaac Newton in the seventeenth century, this conception of natural order was applied to economic activity by the eighteenth century political economists who:

. . . assumed that beneath the fluctuations of daily economic activity there was an abiding structure or order which should be the main concern of the economist. An analysis of this underlying static order was supposed to provide a body of general economic principles of universal applicability.³

³Allan G. Gruchy, Modern Economic Thought, (New York: Prentice Hall, 1947), p. 10.

The predilections of standard economics which are rooted in this conception of the nature of the universe bear on the other two general areas of neo-Weblenian theory, economic activity and economic change, and can be viewed as three distinct but closely related attitudes - those concerning the scope of economic analysis, the nature of human behavior, and the proper role of price in economic analysis.

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Newtonian mechanism is clearly reflected in hedonistic psychology. Human nature, like that of the universe, is thought to remain in a state of inactivity unless acted upon by disequilibrating forces. According to hedonism these forces are pleasure and pain. Once set in motion, the individual remains active until pleasure and pain are balanced, at which time he returns, unchanged, to a state of inertness. Economic activity is precipitated by desire for consumption which more than compensates for the irksome nature of work and is terminated when satiation diminishes desire to the level of intensity of the pain occasioned by work.

Precise pleasure-pain accounting of the extent of individual economic activity does not appear until cost and utility schedules are combined by Alfred Marshall, but hedonism is no less thoroughgoing in the interpretations of classical and marginal utility economists. Jevons, for example, has value depending solely on the final degree utility. But he adds "How can we vary this degree of utility? -- By having more or less of the commodity to consume. And how shall we get more or less of it? -- By spending more or less labour in obtaining a supply."⁴ The idea of

⁴Stanley Jevons, The Theory of Political Economy (4th ed., London: McMillan and Co., 1924), p. 165.

pleasure is necessary to the idea of pain, and vice-versa, and the former is accordingly implicit in classicism and the latter in marginalism.⁵

⁵See David Hamilton, op. cit., pp. 41-7.

Human nature, like that of the universe, is thought to remain in a state of inactivity unless acted upon by disorganizing forces. According to hedonists these forces are pleasure and pain. Once set in motion, individual beings strive until pleasure and pain are balanced, at which time he returns, unchanged, to a state of inactivity. Hedonistic activity is precipitated by desire for enjoyment, which may have consequences for the intrinsic nature of work and is terminated when satisfaction diminishes desire to the level of infatigability of the pain occasioned by work. Precise pleasure-pain accounting of the extent of individual economic activity does not appear until Bentham and utilitarian economists are combined by Alfred Marshall, but hedonism is no less thoroughly in the interpretation of classical and marginal utility economists. Bentham, for example, has value depending solely on the final degree of utility. He adds "How can we vary this degree of utility? -- By having more or less of the commodity to consume. And how shall we get more or less of it? -- By spending more or less labor in obtaining a supply." The idea of

¹Stanley Jevons, The Theory of Political Economy (4th ed., London: Macmillan and Co., 1881), p. 100.

pleasure is necessary to the idea of pain, and vice-versa, and the former is accordingly implicit in classical and the latter in marginalist.

²See David Hume, op. cit., pp. 41-2.

The overt hedonism of neo-classical economics persists in that part of contemporary standard theory which was developed or restated around the turn of the century. But does this circumstance completely rule out the possibility that many economists who accept these deductions from hedonism really have no predispositions in favor of hedonism? None of the alterations of neo-classical theory which have become part of contemporary standard theory support this claim. The only departure from hedonism exhibited in the Keynesian Revolution is the denial of rational response of savers to interest rate fluctuations. Hedonism was not compromised by admission of monopolistic competition. Indifference analysis evidences as much solicitude for hedonism as embarrassment. There is little reason to expect people who become enthusiastic over the theory of games⁶ to be attracted by a theory which takes a behavioristic view of human nature and employs the concept of culture in explaining economic

⁶John Van Neuman and Oskar Morganstern, Theory of Games and Economic Behavior (Princeton: Princeton University Press, 1944).

activity.

The response to the neo-Veblenian theory of progress is also affected by this preconception. Combining different tools, like all activity, must, under the hedonistic conception of human nature, be induced by the prospect of reward (pleasure.) Since this view cannot be reconciled with the proposition that technology is in its own nature dynamic, it is likely to block thoughtful examination of the theory of progress.

In an article entitled "The Economic Way of Thinking", Howard S.

The overt hedonism of neo-classical economics persists in that part of contemporary standard theory which has survived or crested around the turn of the century. But does this circumstance completely rule out the possibility that any economists who have been influenced from hedonism really have no predilection in favor of hedonism? None of the alterations of neo-classical theory which have become part of contemporary standard theory support this claim. The only departure from hedonism exhibited in the Keynesian revolution is the denial of rational response of man to interest rate fluctuations. Hedonism was not compromised by admission of monopolistic competition. Indifference analysis evidences as much evidence for hedonism as a mathematician. There is little reason to expect people who become enthusiastic over the theory of games to be attracted by a theory which takes a behavioristic view of human nature and employs the concept of utility in explaining economic

John Van Ness and Gabor Worgatschny, Theory of Games and Economic Behavior (Princeton: Princeton University Press, 1951).

activity.

The response to the neo-Vulcanian theory of progress is also affected by this preconception. Combining different tools, like all activity, man, under the hedonistic conception of human nature, is induced by the prospect of reward (pleasure). Hence this view cannot be reconciled with the proposition that technology is in its own nature dynamic, it is likely to block thoughtful examination of the theory of progress.

In an article entitled "The Economic Way of Thinking," Howard S.

Ellis, takes the position that any analysis which does not concern itself with individual choice is something other than economics.⁷ The nexus

⁷"But there is certainly a narrower and very significant sense in which choice is only individual, and it is this kind of choice which economics, in contrast to ethics and politics, takes for its subject matter." Howard S. Ellis, "The Economic Way of Thinking", American Economic Review, XL (1950), 1.

between this view of the scope of economics and hedonism are evident in his remark, "finally, the basic economic process is thus a weighing of costs to individuals and of utilities or satisfactions to individuals."⁸

⁸Ibid., p. 10.

Obviously, this view places all of neo-Veblenian theory outside of economics. Whether or not this preconception seriously obstructs examination of neo-Veblenian ideas of course depends on the extent to which standard economists in general participate in Ellis's "way of thinking." His own examples of standard theorists' concern with optima other than "the doctrine of maximum satisfaction" indicate that there is considerable disagreement with this position among the orthodox. However to consider group choice a part of economics is something different from including status preservation, aggressive economic behavior, the nature of technological innovation and institutional change within the subject matter of economics. And the difference is fundamental; only the former is compatible with the cardinal preconception of standard economics - its attitude toward price.

Ayres suggests that standard theory's preoccupation with price

It is, however, not possible to determine the exact date of the first appearance of the word "Ezer" in the Bible.

The word "Ezer" is found in the Bible in several places, including the book of Genesis, Exodus, and Numbers.

The word "Ezer" is also found in the Talmud and other Jewish texts, where it is used to describe a helper or supporter.

The word "Ezer" is also found in the Arabic language, where it is used to describe a helper or supporter.

The word "Ezer" is also found in the Hebrew language, where it is used to describe a helper or supporter.

The word "Ezer" is also found in the Greek language, where it is used to describe a helper or supporter.

The word "Ezer" is also found in the Latin language, where it is used to describe a helper or supporter.

The word "Ezer" is also found in the French language, where it is used to describe a helper or supporter.

The word "Ezer" is also found in the Italian language, where it is used to describe a helper or supporter.

The word "Ezer" is also found in the Spanish language, where it is used to describe a helper or supporter.

The word "Ezer" is also found in the Portuguese language, where it is used to describe a helper or supporter.

originated initially with "the intellectual fascination which resulted from the discovering that all prices are linked together in an amazingly extensive system of subtle and delicate relationships,"⁹ and with the

⁹This discovery, Ayres holds, grew out of 16th and 17th century monographic investigations of seigniorage, taxation and foreign trade. C. E. Ayres, The Theory of Economic Progress, (Chapel Hill: University of North Carolina Press, 1944), p. 37.

social significance attributed to price in the doctrine of just price. However, it was the Newtonian notion of natural order that is responsible for the central position occupied by price in standard theory. The inter-relatedness of prices and the moral concern of the doctrine of just price converged in the notion of the mechanistic self-equilibrating market.

Standard theory is price theory, and while price is given extended treatment in neo-Weblenian theory, it is treated as an aspect of regressive ceremonialism rather than a source of understanding. However, it may be objected that many standard economists are not theorists and accordingly are unlikely to identify economics with price. It is not unlikely that such economists would be even more difficult to pry loose from this identification. As Ayres says, "because price data are amenable to their analysis they statisticians find it easy to suppose that price is therefore the essential stuff of the economy."¹⁰

¹⁰Ibid., p. 18.

The notion that economists should center their attention on price

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and confine their analysis to situations in which the individual chooses freely is justified by the argument that "in my opinion, economists will have their hands full enough in mastering and expounding economics, with a minimum of excursion into other fields."¹¹ The ubiquity of the inflexible

¹¹Frank Knight, Reply, "Is Gray's Choice a Part of Economics", Quarterly Journal of Economics, LXIII (1953), 606.

notion that there are and ought to be "ends in themselves" is obvious. The tenacity with which standard economists cling to their hedonistic preconception is disclosed in the next chapter.

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Quarterly Journal of Education, 1917, 10, 1-2

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CHAPTER IV

THE RESPONSE TO INSTITUTIONALISM

Interest in neo-Weblenian theory seems to have been throttled not only by the preconceptions discussed above, but by a predisposition of another sort. The prevailing attitude toward the institutionalism which preceded the neo-Weblenian variant appears to have conditioned the reaction of many of those who have examined it as well as account for the limited attention given it.

John Gamba has divided institutional economics into two categories-- that of Weblen and that of his "followers." This dichotomy, altered to exclude neo-Weblenian thought,¹ will be employed to describe the insti-

¹Gamba's failure to recognize the distinctive character of what this study calls neo-Weblenian is indicated in his description of The Theory of Economic Progress as a "good example of contemporary neo-Weblenian writing." He employs this designation to cover all institutionalists other than Weblen. Op. cit., p. 95.

tutionalism whose unfavorable reception bears on the response to neo-Weblenian theory.

Weblen's institutionalism had three separate aspects - his critique of neo-classical theory, his admonitions regarding method, and his exposition of the distinction between technology and ceremonialism. According to Weblen, the hedonistic preconception of human nature underlies all of the other "preconceptions of economic science" - its taxonomic nature, its preconception of natural order, its conjectural history, teleology, etc.,

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Since this preconception is the only one which standard economists have felt called upon to discuss in commenting upon the institutional critique of standard theory, the other Veblenian criticisms will not be reviewed.

Veblen enjoined economists to employ the inductive method and to make economics an evolutionary science. Although his meaning of evolutionary is not clear and his insistence on the value of induction is not in keeping with his own method,² these exhortations seem to have affected his pre-

²Gambas points out that "the man who insistently yelled for the opaque fact himself pulls theories out of his hat, his sleeve or out of thin air - as brazenly as ever did the deductive, taxonomic, pre-Darwinian theorists." Op. cit., p. 56.

neo-Veblenian followers more than any of his other ideas.

Veblen's idea of the cleavage between the animistic and industrial aspects of culture, however, received little attention or development at the hands of later institutionalists other than those of the neo-Veblenian variant. Accordingly, this aspect of institutionalism received no comment prior to the emergence of neo-Veblenian theory.

The institutionalism which falls between that of Veblen and neo-Veblenian theory has two aspects. The first may be called its "approach." The other comprises its accomplishments. The approach, as something separate from the methods actually employed in the accomplishments, consisted of a continuation of Veblen's criticism of standard theory and of statements regarding methodology and the role of economics. Because the comments bearing on "approach" which standard economists made upon the institutionalism of this middle period were generally not designed to be

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is not clear and his language is not clear and his language is not clear...

with his own words, these expressions seem to have a different meaning...

Voisin's theory is not clear and his language is not clear and his language is not clear...

neo-Voisin's theory is not clear and his language is not clear and his language is not clear...

Voisin's theory is not clear and his language is not clear and his language is not clear...

aspects of culture, history, received literary tradition or development of...

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The traditionalism which falls between that of Voisin and neo-

Voisin theory has two aspects. The first is called the 'general'

The other concept is the 'specific'. The concept of 'specific' is...

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statements regarding the role of standard theory in the development of...

comments dealing with 'general' and 'specific' standard theory are given...

institutional of this theory were generally not based on an...

confined to any particular interpretation of institutionalism, it is possible to describe the "approach" of the institutional economics of this period in terms of a couple of examples of statements of position.

In an oblique definition, Walton Hamilton set forth the following properties of the institutional approach:³ (1) Institutionalism doesn't

³These characteristics were advanced as those essential to economic theory properly conceived. Each, however, he holds to be present in the institutional approach. Walton Hamilton, "The Institutional Approach to Economic Theory", American Economic Review, IX (1919), 312-6.

observe artificial boundaries between different fields of economics, i. e. "insurance and advertising," "value," "money." (2) It is "relevant to modern problems of control" i. e. applicable to problems of social policy. (3) It recognizes institutions ("competition, contract, property", etc.) to be the proper subject matter of economics. (4) It is "concerned with matters of process." (5) It is based on an acceptable "theory of human behavior." He submits a behavioristic psychology:

"it (hedonism) overlooked the part that instinct and impulse play in impelling one along the path of his economic activity. And, most important of all, it neglects the influence exercised over conduct by the scheme of institutions. . ."⁴

⁴Ibid., p. 17.

In 1932, Willard E. Atkins held that the following principles were the core of agreement among institutionalists:

(1) Group behavior, not price, should be central in economic thinking, (2) more attention should be given to uniformities of custom, habit, and law as modes of organizing economic life;

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(3) individuals are influenced by motives that cannot be quantitatively measured, (4) economic behavior is constantly changing; therefore economic generalizations should specify units of culture and time to which they apply, (5) it is the task of the economist to study the sources of the conflict of interests in the existing social structure as an integral factor rather than a something diverging from a hypothetical norm.

Moreover, to institutionalists, economics, like the physical sciences, should describe rather than explain.⁵

⁵Willard E. Atkins, "Round Table Conference: Institutional Economics," American Economic Review, XX (1950), 11-12.

The accomplishments of the institutionalist of this middle period John Gams describes as "monographic" and "on the level of artisanship,"⁶

⁶Gams, op. cit., p. 64.

and states that "One is almost tempted to say that most of the contributions to economics made by institutionalists add up to high-grade clerical work. . ."⁷

⁷Ibid., p. 86.

Mitchell's studies of the business cycle, Hamilton's of the coal industry, Clark's cost studies, Hoxie's study of Unionism and Commons' of legal institutions are commonly considered by both standard and institutional economists to be representative of the accomplishments of institutionalism. While they have recognized the value of this work and have conceded that the institutional approach is reflected in them, standard economists have insisted that they are in no way inconsistent with standard theory. In fact, such studies as these have been held to complement

and to have been absorbed by standard theory.

Of all that has been written by all who have been called institutionalists other than Veblen and the neo-Veblenians, only some of John R. Commons' ideas can be reasonably said to have contributed to institutional theory. His thinking has been held to converge with that of Veblen in so far as he arrived at a conception of wealth and assets which recalls

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Veblen's technology-ceremonialism distinction.⁸ However, since Commons

⁸David Hamilton, "Veblen and Commons; A Case of Theoretical Convergence", Southwestern Social Science Quarterly, XXXIV (1953), 43-50.

conceived this distinction only as an aspect of economic organization rather than as an aspect of culture and because his thinking turns on the working out of collective action rather than the working out of cultural forces, his ideas will not be considered part of neo-Veblenian theory.

If the response to neo-Veblenian theory is in any way affected by the nature of earlier institutionalism, it is of course affected directly by the nature of the reaction to such institutionalism. The meager amount of comment upon institutional economics contains a number of similar reactions to the attack on the hedonistic psychology of standard economics. The rest of the comment consists of generalized characterizations of institutionalism.

Schumpeter held that orthodox theory is compatible with all possible psychological theories:

It can be held, that, while theoretical tools are a necessary evil, yet all the tools so far devised are vitiated at their roots by some initial "error," e.g. a fundamentally false psychology. To which I should reply: that however faulty we may think the psychology of economists to be in dealing with such problems as property, taxation, motives of enterprise or saving and so on, our tools of analysis such as quasi-rent, equilibrium, coefficients of production, even marginal utility can be interpreted so as to tally with every kind of psychology. The psychological background is, so far as any point of this kind is concerned, little more than a façon de parler and hence cannot possibly be the logical - as distinct from historical - derivate of any particular one.⁹

⁹J.S. Schumpeter, Review, Business Cycles; the Problem and its Setting, Quarterly Journal of Economics, XLV (1931), 155-6.

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...and finally, "voilà et voilà" is a phrase of indifference
Convergence: "voilà et voilà" is a phrase of indifference

conceived this distinction only as an aspect of religious intolerance
rather than as an act of defiance and defiance is the only way to
working out of religious intolerance rather than the result of religious
forces, his ideal will not be considered as the religious theory.

If the progress is not achieved, the result is in any case limited by
the nature of earlier religious intolerance. It is a religious theory
by the nature of the result to which it leads. The religious theory
of content is in itself not a religious theory, but a theory of religious
reactions to the extent of the religious intolerance of religious intolerance.

The rest of the content consists of generalised religious intolerance of
intolerance.

Subsequent to this, the religious theory is considered as a
possible psychological theory.

It can be said, then, that the religious theory is a necessary
evil, for all the religious intolerance and religious intolerance
roots by some initial "error", e.g. a religious intolerance theory
ology. The result is a religious intolerance theory, which is a
think the psychology of intolerance is a religious intolerance theory
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religious intolerance theory, which is a religious intolerance theory, which is a religious intolerance
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possibly be the result of a religious intolerance theory, which is a religious intolerance
derivative of the religious intolerance theory.

Paul Homan's view approximates that of Schumpeter. He holds that "Economic doctrines are valid to the extent that they generalize in enlightening from the facts of experience, no matter with what irrelevant psychological views they may be tinged by accidental association."¹⁰ In the same article he backs off slightly from this position:

¹⁰Paul Homan, "Issues in Economic Theory", Quarterly Journal of Economics, XLII (1928), 346.

Modern psychology has tended to fasten its attentions on man's instinctive or other obscure propensities, with the result that those economists who affect it seem to be more occupied with demonstrating man's defects of rationality than they are with examining its concrete manifestations.¹¹

¹¹Ibid., p. 347.

A sort of neo-scholasticism is revealed in Allyn A. Young's statement that:

Economic theorists have often presented their doctrines as though they flower from some first principle. But the first principle is generally purely ornamental, like the meaningless "desire for wealth." The real soundness of a system of thought depends upon its internal consistency and upon the accuracy with which it summarizes the pertinent facts of experience.¹²

¹²Allyn A. Young, "The Trend of Economics as Seen by Some American Economists", Quarterly Journal of Economics, XXXIX (1925), 176.

In 1931 Frank Knight offered the following observation: "The critics of the simplified psychology used by economic theorists have

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made little headway in bringing forth substitute principles. I do not believe they ever will."¹³

¹³Knight, Comment, "Soundings in Non-Euclidian Economics," American Economic Review, XXI (1931), 145.

According to Frank Neff, this deficiency has been removed. He states: "The institutionalists create their own economic man, a Robinson Crusoe of their own delineation. Their economic man has a special bent for effective work and an abhorrence of futile effort. Instinctively he is to move for the common good."¹⁴

¹⁴Frank Neff, Economic Doctrines (New York: McGraw-Hill, 1950), p. 438.

The view which is probably most widely held among standard economists that their theory rests on common sense rather than psychology, is evident in Lionel Robbins' statement that:

. . . and the lay public, ever anxious to escape the necessity of recognizing the implications of choice in a world of scarcity, has allowed itself to be bamboozled into believing that matters, which are in fact as little dependent on the truth of fashionable psychology as the multiplication table, are still open questions on which the enlightened man, who, of course, is nothing if not a psychologist, must be willing to suspend judgment.¹⁵

¹⁵Lionel Robbins, The Nature and Significance of Economic Science (London: MacMillan & Co., 1935), pp. 83-84.

These comments indicate that before the appearance of neo-Veblenian

made little headway in bringing out the...
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American Journal, Boston, 22 (1911), p. 11.
Journal of the American Psychological Association, 1911, p. 11.

According to Frank Bell, this...
states: "The institutionalized...
Crises of their own delinquency...
for effective work and an...
to save for the..."

Frank Bell, Journal of the American Psychological Association, 1911, p. 11.

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theory standard economists had found criticism of the hedonistic psychology underlying orthodox theory tiresome rather than provocative.

The other remarks reveal two interpretations of institutionalism. The first of these is that it is nothing but empiricism. This thought, voiced by Schumpeter in 1930,¹⁶ is restated twenty years later by Ludwig

¹⁶Now Professor Mitchell's pages are remarkably free from the tendency to substitute institutional investigation for theory." Op. cit., p. 159.

von Mises: "The Historical School and the Institutionalists want to outlaw the study of praxology and economics and to occupy themselves merely with the registration of data or, as they call them nowadays, the institutions."¹⁷

¹⁷Von Mises, Human Action (New Haven: Yale University Press, 1949), p. 643.

The other common interpretation is that institutionalism is not something different from the rest of economics. This interpretation is clearly set forth by Paul Homan:

If institutional economics is broadly defined it is practically co-extensive with economics. If narrowly defined in connection with Veblenian origin, it consists mainly of a few thin essays, critical, hortatory and hopeful. If not defined at all it is a miscellaneous body of works associated with a group of economists reputed to be institutionalists. . . I simply record my inability to see the reality or prospective reality of an institutional economics differentiated in any definable way from the common goal of economics in its aspects of problems, methods, and generalized knowledge.¹⁸

¹⁸Homan, "An Appraisal of Institutional Economics", American Economic Review, XXII (1932), 16-17.

theory standard economists had some criticism of the institutional approach -
only institutional approach theory is not a theory of institutional change.

The other reason for the institutional approach of institutional change
The first of these is that it is not a theory of institutional change.
voiced by Schmitter in 1980, it is a theory of institutional change.

Now Professor Schmitter's paper has remarkably free access to
tendency to substitute institutional investigation for theory. (p. 159)

van Meeus: The Historical School and the Institutionalists want to outline
the study of practice and economics and to study theories which with
the registration of data on, as they call them nowadays, the institutions.

Ivan Meeus, Human Action (New Haven: Yale University Press, 1963),
p. 613.

The other reason for the institutional approach is that institutionalism is not
something different from the rest of economics. This information is
clearly set forth by Paul Hirsch:

If institutional economics is properly defined it is essentially
co-extensive with economics. It merely defines its extension
with historical origin, it contains within it a few thin layers
critical, historical and methodological. It is not different at all from
miscellaneous body of ideas associated with a group of economists
reputed to be institutionalists. It is not a theory of institutional
to see the reality or operative position of an institutional
economist differentiated in any definite way from the common
goal of economics in its search for general, scientific, and
generalized knowledge.

Hirsch, "An Journal of Institutional Economics", Economic Review,
XIII (1973), 16-17.

An observation made by Frank Knight supports this view. Commenting upon Homan's Contemporary Economic Thought, he remarks that "The discontinuity between the newer and the older economics is imaginary, and largely a reflection of the human frailty of over-estimating one's own uniqueness and originality."¹⁹

¹⁹Knight, Comment, Contemporary Economic Thought, Quarterly Journal of Economics, XLII, (1928), 138.

Closely related to this interpretation is the view that there are differences between standard and institutional economics, but that these are methodological only and do not extend to the area of theory. This meaning is registered in the following remarks:

. . . and there is room for all points of view without abandoning the product of the best economic thought built up as a result of a hundred years of brilliant work.²⁰

²⁰W. W. Hewett, "Round Table on Institutionalism", American Economic Review, XXII (1932), 114.

Much controversy among economists is due to differences in their conceptions of problems and methods of attack, and not to real antagonisms in theoretical position.²¹

²¹Frank H. Knight, Review, "Soundings in Non-Euclidean Economics," American Economic Review, XXI (1931), 145.

The attitude toward institutionalism disclosed in this display of comments has been handed down, unchanged, to contemporary standard economists. This is evidenced by the close similarity between the two

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upon Hansen's Contemporary Economic Thought, he remarks that "the dis-
continuity between the newer and the older economic is largely, and
largely a reflection of the human frailty of over-estimating one's own
wisdom and originality."¹⁹

Frank Knight, Comment, Contemporary Economic Thought, Quarterly
Journal of Economics, XLII (1935), 137.

closely related to this interpretation is the view that there are
differences between standard and institutional economics, but that these
are methodological only and do not extend to the area of theory. This
meaning is registered in the following remarks:

... and there is room for all points of view without
abandoning the pursuit of the best economic theory built up
as a result of a hundred years of brilliant work.²⁰

Dr. H. Lewis, "Round Table on Institutionalism", American
Economic Review, XLII (1932), 111.

Such controversy among economists is due to differences in
their conceptions of principles and methods of attack, and not to
real antagonisms in theoretical position.²¹

²¹ Frank H. Knight, Review, "Foundations in Neo-Bourgeois Economics,"
American Economic Review, XLII (1932), 115.

The attitude toward institutionalism discussed in this study
of comments has been handed down, unchanged, to contemporary standards
economists. This is evidenced by the close similarity between the two

following comments, one made before World War I and the other only two years ago. Reviewing Imperial Germany, Graham Wallas asks, "If, as he Veblen hints on page 203, our present 'waste of time and substance' is due to the 'price system', what are we to put in its place?"²² Referring

²²Wallas, Review, Imperial Germany, Quarterly Journal of Economics, XXX (1916), 187.

to the view set forth by Allin in "Is Group Choice a Part of Economics," Frank Knight says, "It would seem rather more constructive to show us how it is all to be done so much better."²³ Institutionalism continues to

²³Knight, Reply, "Is Group Choice a Part of Economics", Quarterly Journal of Economics, LXIII (1953), 606.

be considered negative.

It also continues to be equated with empiricism. "Mr. Allin blows long and a bit desperately upon the dying embers of the futile controversy of three or four decades ago between 'Institutional' and 'theoretical' economics."²⁴

²⁴Howard Ellis, Reply, "Is Group Choice a Part of Economics", Quarterly Journal of Economics, LXIII (1953), 609.

The idea that only slight differences distinguish institutional from standard economics is also still current. "In the last twenty years the spirit of the institutionalist has permeated the whole of economic

following comments, one with reference to the following:

COLLIER CONTENT

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²²William, review, Journal of Economic Literature, 1971, 9(1), 107.

to the view that youth is filled in the sense of a lack of knowledge.
Frank Knight says, "It would be a mistake to think that the only way
how it is all to be done on your part."

²³Knight, review, Journal of Economic Literature, 1971, 9(1), 107.

be considered negative.
It also continues to be argued that...
long and a bit desperately from the...
of three or four decades ago between...
economies."²⁴

²⁵Howard Ellis, review, Quarterly Journal of Economics, 1971, 86(1), 107.

The idea that...
from standard economic...
the spirit of the... has... the... of...

analysis and has become more or less integrated with the other approach."²⁵

²⁵Richard Ruggles, "Methodological Developments", A Survey of Contemporary Economics, ed. by Bernard F. Haley (Homewood, Illinois: Richard D. Irwin, Inc.), p. 427.

These comments indicate that the institutionalism which preceded neo-Veblenian theory stimulated little questioning of orthodox theory among standard economists and that the prevailing attitude toward the whole "episode" is one of ennui.

analysis and the process of the development of the economy.

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Richard S. Tedlow, *The Rise and Fall of the Great American Company*
Condensation by Richard S. Tedlow

REVIEWS

These reviews discuss the book's contribution to the study of the American economy.

neo-Vitalist theory of the American economy and the role of the entrepreneur.

Some standard economic theory and the growth of the American economy.

"episodes" is one of them.

CHAPTER V

CONCLUSION

If neo-Weblenian theory is significantly different from the rest of what has been called institutionalism, why should the attitude toward that of the 'twenties and 'thirties be expected to affect the response to this new body of theory? Because the older variety continues to be propounded, the difference between the two is likely to be obscured.

Allan Gruchy's "Modern Economic Thought" is more than an account of the economics of six American institutionalists; it is his statement of the principles of institutionalism, and these conform to the "approach" of pre-neo-Weblenian institutional economics. This volume was published in 1947. The appearance of The Economics of Collective Action¹ in 1951

¹John R. Commons, The Economics of Collective Action, (New York: Macmillan, 1951.)

brought this approach to attention and reenforced the notion that institutionalism offers only what was offered and rejected twenty years ago.

This notion is given additional support by restatement of the institutional approach such as that supplied by Edwin E. Witte in "Institutional Economics as seen by an Institutional Economist."² He

²Edwin E. Witte, "Institutional Economics as seen by an Institutional Economist", The Southern Economic Journal, XXI (1954), 131-40.

COLLEGE COMMENT

REVIEW

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John J. ...
 ...

describes his conception of institutionalism in terms of the following characteristics: (1) "Institutional economics. . . is not so much a connected body of economic thought as a method of approaching economic problems." (2) "They (institutionalists) freely disregard the lines of division between the several academic disciplines." (3) "They are concerned with the correct answers to public policy questions . . ."

(4) "To the institutional economists, economic man is pretty much fiction." (5) "They seek not universal natural laws but solutions applicable to a particular time, place and situation." (6) "To find the solution to economic policy problems, the institutional set up must be understood." (7) "They do not rule out the possibility of changes in institutions." (8) "Institutionalists have a great regard for statistics and field studies. . . (and) . . . have generally relied upon induction rather than deduction." (9) They recognize that "group action looms larger than individual action in the present day economy."

All of these items appear in one or both of the characterizations illustrated in Chapter IV, and only one item appearing in these two descriptions is omitted from Witte's list. Those who found little attractive in the institutionalism of two and three decades ago are likely to find such restatement so tiresome that they steer clear of all institutionalism.

If identification of neo-Veblenian theory with the institutionalism of earlier decades does account for substantial measure of the indifference with which the former has been received, neo-Veblenians might be wise to soft-pedal their connection with the institutionalism of Commons, Mitchell

described in the following manner at the following
characteristics (1) "The following are the
connected (2) "The following are the
of distinct (3) "The following are the
concerned with the current (4) "The following are the
(1) "The following are the
(2) "The following are the
particular (3) "The following are the
economic (4) "The following are the
(1) "The following are the
(2) "The following are the
studied (3) "The following are the
than (4) "The following are the
individual (5) "The following are the
of (6) "The following are the
illustrated in (7) "The following are the
description is (8) "The following are the
attractive in (9) "The following are the
to find (10) "The following are the
tionist.
It identifies (11) "The following are the
of earlier (12) "The following are the
with which (13) "The following are the
self- (14) "The following are the

and the like.

Ayres seemed to be looking in this direction in an article entitled "The New Economics,"³ in which he distinguished between what this

³C. E. Ayres, "The New Economics", Southwest Review, XXXIII (1948), 223.

study has called neo-Weblenian economics and institutionalism. The latter he saw as only one of four sets of ideas which converge in the "New Economics."

Though, with Ayres, David Hamilton insists upon the distinction between empirical and institutional economics, he points up the "cohesive nature of institutional theory" in both "Weblen and Commons: A Case of Theoretical Convergence" and Newtonian Classicism and Darwinian Institutionalism. In both studies this seems to be of secondary importance to the problem at hand, but in each case the effect is to recall the "approach" which, as Gams noted, is today "run down at the heels."

and the like.

It is also to be noted that the study is entitled "The New Economics" in which the author's name will be

J. A. ... The New Economics, ... 1933.

study has called attention to the connection between the latter he now as a by-product of his own research work.

That, which gives, in the author's view, the connection

between empirical and theoretical economics, the author has

nature of theoretical theory, in which the author has

Theoretical Economics and Historical Economics

intention. In both cases the author is of the opinion

to the problem at hand, but in some cases the author is

"approach" which, as a result, is a very good one.

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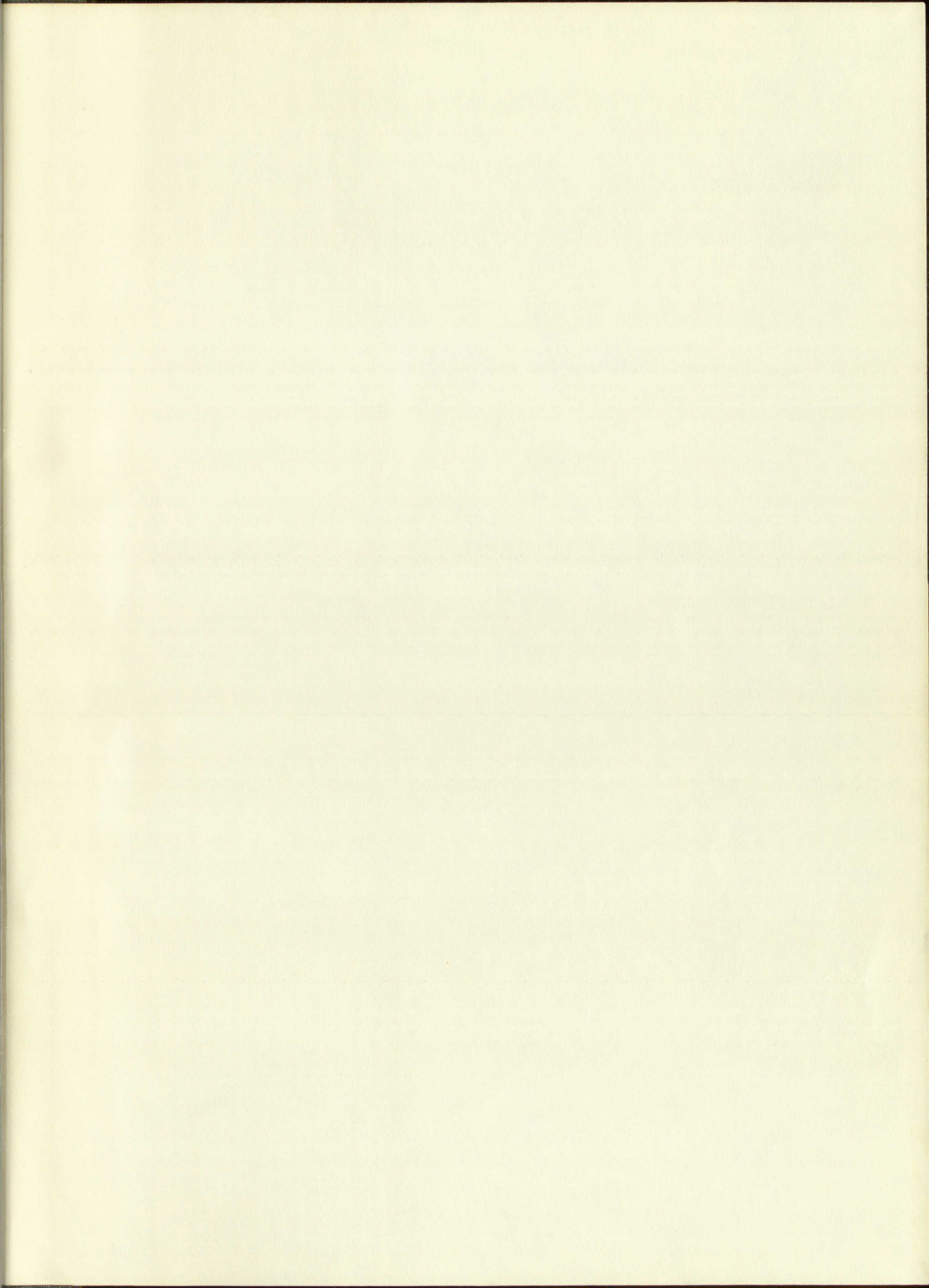


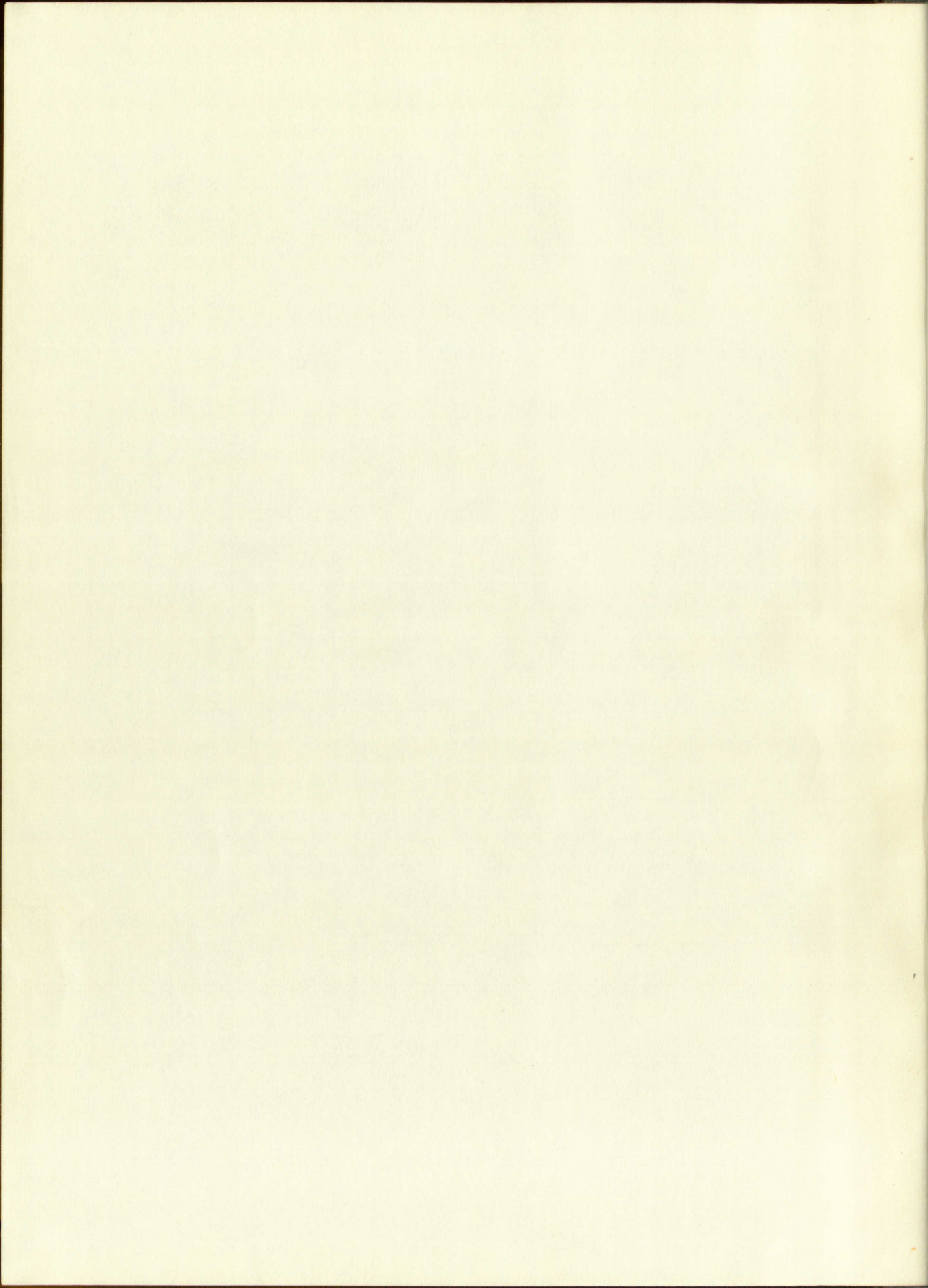
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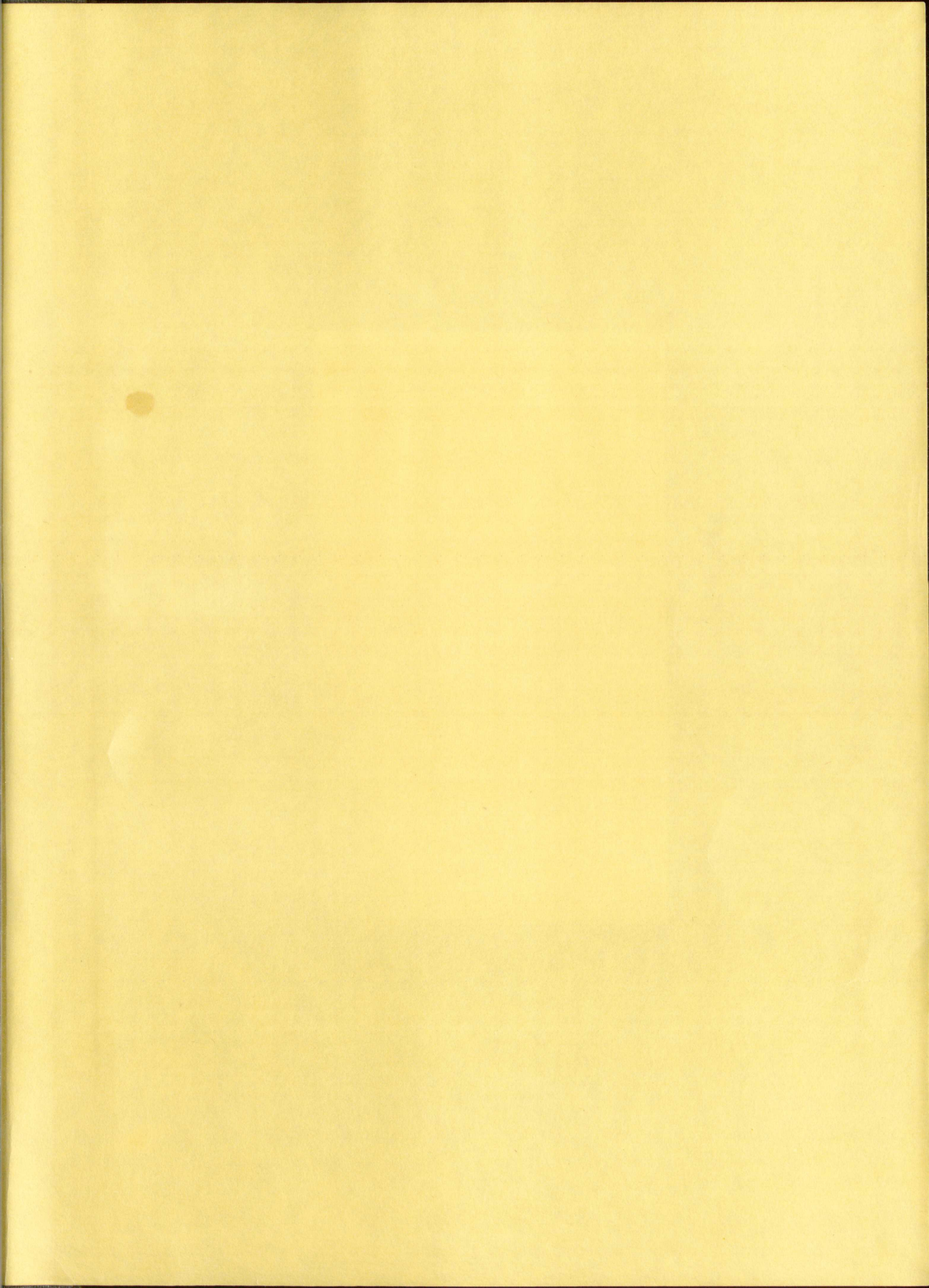


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