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THE DEVELOPMENT OF AMERICAN
INSTITUTIONAL ECONOMICS

by

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OF THE REQUIREMENTS FOR THE DEGREE OF
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ABSTRACT

Institutional economics is a particularly ill-defined concept, and a great deal of disagreement surrounds its meaning. Both the nature and development of institutional economics have been the subject of dispute for some sixty years; even those who claim to be institutionalists do not always agree on these issues.

This thesis is an examination of the development and nature of American institutionalism. It proceeds through a detailed study of the intellectual currents in nineteenth century America which gave rise to the movement, and the work of those writers generally accepted as institutionalists. Most attention is given to T. Veblen, W.H. Hamilton, W.C. Mitchell, J.R. Commons, R.G. Tugwell, and C.E. Ayres.

It is argued that institutionalism grew out of the impact of evolutionism and historicism in American thought. These factors resulted in the development of the "new school" of German influenced scholars, the work of Thorstein Veblen, and the rise of pragmatism. Institutionalism is a combination of Veblenism, pragmatism, and the ideas of new school writers such as R.T. Ely and H.C. Adams.

The examination of the work of the major institutionalists reveals that while they do share a core of very general methodological and economic views, there are a number of points of

significant variation. It is also noticeable that the economic theories that institutionalism contains are not rigorously developed and contain many weaknesses. The thesis contends that institutionalism can best be seen as a broad movement containing within itself a number of distinguishable "wings," "groups," or "traditions." Its failure to develop a greater degree of coherence and more satisfactory theoretical ideas is attributed to the problems inherent in the epistemological and methodological positions adopted by its members.

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CHAPTER 1

INTRODUCTION

Institutional economics has been a source of considerable perplexity for the student of economic thought ever since the term was first introduced into the literature by Walton Hamilton in 1919.¹ The major problem has always been that there is remarkably little agreement concerning exactly what institutionalism is. This lack of agreement, it should be noted, extends well into the ranks of those who call themselves institutionalists.

In Walton Hamilton's original article institutional economics was defined in terms of a very broad approach to the subject of economics. Institutional economics was, for Hamilton, the attempt to develop a theory of the "economic order,"² which involved (1) the concept of "process" or cumulative evolutionary change, (2) the study of institutions, (3) a concern for "social control" or problem solving, and (4) the use of the findings of "modern psychology" concerning the role of habituation in human behaviour.³ Hamilton admitted that no consistent body of institutionalist doctrine existed at that time, but he held out the hope that one

1. W.H. Hamilton, "The Institutional Approach to Economic Theory," reprinted in Industrial Policy and Institutionalism (Clifton, 1974), pp.187-198.

2. Ibid., p.190.

3. Ibid., pp.190-196.

would eventually be arrived at. Among those contributing to the beginnings of this institutional economics Hamilton listed Thorstein Veblen, Wesley Mitchell, and various other dissenters from economic orthodoxy.⁴

In the 1920's and 1930's institutionalism attracted many adherents, so much so that L. Robbins was moved to complain of the "wide area of power" held by institutionalists in American economics.⁵ However, the movement, as even institutionalists admitted, was extremely diverse, and many attempts were made to define the common elements in institutionalist thought and to discover if any progress had been made toward developing what could be called a body of institutionalist economic theory.⁶ Most non-institutionalist investigators found little evidence of any definable institutional theory, and many characterised the movement as consisting largely of historical, descriptive, or quantitative investigations of particular institutions, combined with a dislike of abstract theorising.⁷ It must be said that institutionalists themselves did much to contribute to this negative appraisal,⁸ although some writers argued that the characterisation

4. Ibid., pp.197-198.

5. L. Robbins, An Essay on the Nature and Significance of Economic Science (London, 1932), p.104.

6. See for instance the Round Table Conferences, "Institutionalism: What It Is and What It Hopes to Become," American Economic Review 21, supp. (1931): 134-141; and "Institutional Economics," American Economic Review 22, supp. (1932): 105-116. See also L.D. Edie, "The Institutional Concept," Quarterly Journal of Economics 41 (1927): 405-440; and Paul Homan, "An Appraisal of Institutional Economics," American Economic Review 22 (1932): 10-17; J.R. Commons, "Institutional Economics," American Economic Review 21 (1931): 648-657; and the comments by J.E. Shafer, J.R. Commons, and N.L. Silverstein in the American Economic Review 22 (1932): 261-269.

7. P. Homan, op.cit., pp.12-17; J.J. Spengler, in "Institutionalism: What It Is and What It Hopes to Become," op.cit., pp.135-137; L. Robbins, op.cit., p.104.

8. For example, L.D. Edie, op.cit., pp.405-440; N.L. Silverstein,

was inadequate, particularly with respect to the theoretical content to be found in Veblen's work.⁹ A.L. Harris, for instance, argued that Veblen had more in common with Marx than with other institutionalists,¹⁰ and, as Veblen is frequently regarded as the "father" of institutionalism, such ideas created problems in the understanding of the development of institutionalism and in the location of the sources of institutionalist thought.¹¹

Despite these difficulties, the view of institutionalism as essentially descriptive and lacking in theory took hold in many textbooks.¹² What is more, the growth of institutionalism was checked at the end of the 1930's, and the movement declined in importance. This led some commentators to conclude that institutionalism was dying out.¹³ As is now quite clear such judgements were considerably premature. In the post-1945 period institutionalism has gradually made itself felt once more, and institutionalists are now well represented in organisations such as the Association for Evolutionary Economics and in the pages of

"An Appraisal of Institutional Economics: Comment," American Economic Review 22 (1932): 268-269; W.E. Atkins et al., Economic Behavior, An Institutional Approach (Boston, 1931); see also D. Hamilton, "Why is Institutional Economics Not Institutional?," American Journal of Economics and Sociology 12 (1962): 312.

9. D R Scott, "Veblen Not An Institutional Economist," American Economic Review 23 (1933): 274-277; K.L. Anderson, "The Unity of Veblen's Theoretical System," Quarterly Journal of Economics 47 (1933): 598-626.

10. A.L. Harris, "Types of Institutionalism," Journal of Political Economy 40 (1932): 721-749.

11. See for instance E. Roll, A History of Economic Thought, 4th ed. (London, 1973), p.453. Roll is forced to speculate on the existence of an "oral tradition" linking Veblen to the later institutionalists. The view of Veblen as a theorist also creates difficulties with the not uncommon view of institutionalism as stemming from the German Historical School. See L. Robbins, op.cit., pp.96 n.1, 104-105.

12. D. Hamilton, op.cit., pp.309-313.

13. M. Blaug, Economic Theory in Retrospect, 2nd ed. (London,

journals such as the Journal of Economic Issues. With this revival the debate over the nature of institutionalist thought has reappeared in some force.

A number of the more recent adherents to the institutionalist movement have sought to counter the conception of institutionalism as descriptive and lacking in theory. Writers such as A. Gruchy, J. Gambs, C.E. Ayres, D. Hamilton, K.W. Kapp, and P.A. Klein have argued that institutionalism is more than description and that institutionalists do share a definable theoretical framework.¹⁴

A. Gruchy argues that institutionalists share a "holistic" approach to economics which involves the idea of the interrelatedness of economic, social, and cultural systems, a view of the "economic order as an evolving scheme of things," and a concern with the "functioning of the economy as a whole."¹⁵ Gruchy sees institutionalism as seeking to add to and broaden orthodox theory rather than replace it.¹⁶ Gambs finds the connecting elements in

1968), pp.680-681; Ben Seligman, The Economics of Dissent (Boston, 1968), p.4; P.A. Samuelson, Economics, 10th ed., (New York, 1976), p.847; K. Boulding, "A New Look at Institutionalism," American Economic Review 47 (1957): 1-12.

14. See A. Gruchy, Modern Economic Thought: The American Contribution (New York, 1947); A. Gruchy, Contemporary Economic Thought: The Contribution of Neo-Institutionalist Economics (Clifton, 1974); J. Gambs, Beyond Supply and Demand (New York, 1946); C.E. Ayres, "Institutional Economics: The Co-ordinates of Institutionalism," American Economic Review 41, supp. (1951): 47-55; D. Hamilton, Evolutionary Economics (Albuquerque, 1970); D. Hamilton, "Veblen and Commons: A Case of Theoretical Convergence," Southwestern Social Science Quarterly 34 (1953): 43-50; D. Hamilton, "Why is Institutional Economics not Institutional?," op.cit.; K.W. Kapp, "In Defense of Institutional Economics," Swedish Journal of Economics 70 (1968): 1-18; K.W. Kapp, "The Nature and Significance of Institutional Economics," Kyklos 29 (1976): 209-232; P.A. Klein, "American Institutionalism: Premature Death, Permanent Resurrection," Journal of Economic Issues 12 (1978): 251-276.

15. A. Gruchy, Modern Economic Thought, pp.18-21.

16. A. Gruchy, Contemporary Economic Thought, pp.299-310.

institutional thought to be the "doctrine of organic unity" and the idea of coercion as a pervasive and normal aspect of economic life.¹⁷ Ayres identifies the key institutionalist doctrines to be a theory of value based on Dewey's instrumentalism, the idea of a dichotomy between institutionally determined modes of behaviour and technically determined requirements, a recognition of the dynamic nature of technology, and the use of behaviourist psychology.¹⁸ Ayres sees institutionalism as in fundamental conflict with orthodox economics.¹⁹ D. Hamilton emphasises the notion of evolution, cumulative causation,²⁰ and the institutions/technology dichotomy.²¹ Kapp stresses the idea of "circular causation," but adds "a common critique of the preconceptions and hidden normative elements of traditional economic analysis," and "a common view of the economic process as an open system and as part of a broader socio-cultural network of relationships."²² Klein lists nine points on which he feels institutionalists can agree, including the placing of economics within a broad cultural framework, the institutions/technology dichotomy, the role of concentrated power groups, a dynamic approach, and an acceptance that "progress" can be achieved in the sense of moving toward the goal of a "reasonable society."²³

17. J. Gamba, op.cit., pp.11, 24-25.

18. C.E. Ayres, op.cit., pp.47-55.

19. C.E. Ayres, "Beyond the Market Economy: Building Institutions that Work," Social Science Quarterly 50 (1970): 1055-1057; see also L.E. Hill, C. Daniel, and C.E. Ayres, "Forum," Social Science Quarterly 51 (1971): 990-996.

20. D. Hamilton, Evolutionary Economics, pp.16-17.

21. D. Hamilton, "Why is Institutional Economics Not Institutional?," op.cit., p.313; D. Hamilton, "Veblen and Commons: A Case of Theoretical Convergence," op.cit., p.50.

22. K.W. Kapp, "In Defense of Institutional Economics," op.cit., pp.8-10; K.W. Kapp, "The Nature and Significance of Institutional Economics," op.cit., pp.209-232.

23. P.A. Klein, op.cit., pp.263-368.

While there are similarities in these attempts to define a common framework it is clear that there are significant variations as well. Each writer defines the supposedly common framework of institutionalist ideas in a different fashion. It is also true that the ideas discussed are extremely general and amount to little more than an overall orientation rather than a set of precise theoretical statements. Indeed, none of these attempts at definition take us much further than Walton Hamilton did in 1919. A further flaw in the argument that institutionalism is a unified tradition of thought with a common theoretical framework is to be found in the views of writers such as E. Witte, F.P. Hall, and W.J. Samuels, who also claim to be institutionalists. Witte argues that institutionalism is "not so much a connected body of economic thought as a method of approaching economic problems."²⁴ F.P. Hall appears to agree, talking about institutionalism as a "practical, realistic, institutional, empirical approach."²⁵ W. Samuels takes a slightly different view, arguing that institutionalism does not as yet possess any satisfactory or generally held theoretical framework, although, like Walton Hamilton almost sixty years before, he hopes that such a general theory may be developed in the future.²⁶ Samuels also criticises those who identify institutionalism with such things as the technology/institutions

24. E.E. Witte, "Institutional Economics as Seen by an Institutional Economist," Southern Economic Journal 21 (1954): 131-140.

25. F.P. Hall, "Toward Understanding Institutionalism," Indian Journal of Economics 37 (1956/57): 177-186.

26. W.J. Samuels, "Institutional Economics: Retrospect and Prospect," mimeographed (1968); W.J. Samuels, "The Journal of Economic Issues and the Present State of Heterodox Economics," mimeographed (Report to the Board of Directors of the Association for Evolutionary Economics, 1976).

dichotomy on the grounds that it is not an idea shared by all institutionalists.²⁷

Given that there is so much disagreement among institutionalists themselves, it is not surprising to find that several writers have suggested that institutionalism may contain a number of different "groups", "wings," or "traditions" within it.²⁸ While this is certainly a possibility, the difficulty of defining institutionalism remains and there is the added problem of identifying the various "traditions" and the elements which differentiate them from each other. Similar difficulties exist with the use of the term "neo-institutionalism" which has appeared in some recent literature.²⁹

This summary of the debates over institutionalism serves to demonstrate that there are persistent and widespread disagreements, and that these disagreements exist even within the institutionalist movement itself. The nature, coherence, theoretical content, and achievements of institutionalism are all at issue, and questions still remain concerning the sources of institutionalist thought, its development, and its relationship with orthodox economics. Institutionalism remains an elusive concept, but surprisingly,

27. W.J. Samuels, "Institutions Vis a Vis Technology in the JEI," Journal of Economic Issues 11 (1977): 871-874.

28. Ibid., pp.871-875; A.T. Cutler, "The Ebb of Institutional Economics," Science and Society 2 (1938): 468-470; J.E. Robertson, "Folklore of Institutional Economics," Southwestern Social Science Quarterly 41 (1960): 22-23; A. Gruchy, "Institutional Economics: Its Influence and Prospects," American Journal of Economics and Sociology 37 (1978): 271-281; D. Seckler, Thorstein Veblen and the Institutionalists (Boulder, 1975), pp.5-10.

29. A. Gruchy, Contemporary Economic Thought, pp.16-18, 198-302; L. Junker, "The Theoretical Foundations of Neo-Institutionalism," American Journal of Economics and Sociology 27 (1968): 197-198.

given the extent of the literature concerning the nature of institutionalism, there is a noticeable lack of detailed work on the thought of many of the major institutionalist figures. Veblen is almost the only exception, but a bulk of the work on Veblen does not concern his economics. Also, what has been produced is often the work of other institutionalists and tends to advocacy rather than to an impartial investigation of the movement.³⁰

The present study is designed to alleviate these deficiencies and to provide a more firmly based discussion of those questions concerning the nature of institutionalism which are still outstanding. The study will proceed through a historical investigation of the institutionalist movement and the ideas of its major practitioners. The focus will be on the American manifestation of the movement,³¹ and will confine itself to those writers most generally accepted as institutionalists.³² The work

30. See for instance D. Hamilton, Evolutionary Economics, and A. Gruchy's two major works Modern Economic Thought and Contemporary Economic Thought. See also A.W. Coats, "Review of A. Gruchy's Contemporary Economic Thought," Journal of Economic Issues 8 (1974): 597-603.

31. It is not denied that institutionalism has followings among economists of other nationalities, but most commentators would agree that institutionalism is primarily an American phenomenon. At one time there was a habit of lumping almost all dissenters from economic orthodoxy under the heading of institutionalism, but as Boulding has argued, if institutionalism is to mean anything at all it must be confined to that tradition of dissent stemming from Veblen, Commons, and Mitchell. See K. Boulding, op.cit., pp.1-2.

32. As Seckler points out there is more agreement concerning who institutionalists are than there is concerning what institutionalism is. D. Seckler, op.cit., p.3. However, there is not complete agreement. Writers such as G. Means, J.M. Clark, and G. Colm have been included by A. Gruchy in his books, but excluded by others. Both Means and Clark objected to their inclusion in

of T. Veblen, W. Hamilton, W.C. Mitchell, J.R. Commons, R.G. Tugwell, and C.E. Ayres will be given close attention, although the work of many others will be dealt with more briefly. Both the similarities and the differences between the various institutionalists will be examined, as, while the term institutionalism must mean something to those who associate with the name,³³ it is not clear that it means the same thing to all institutionalists.

Gruchy's Modern Economic Thought, Clark is often considered as standing between institutionalism and orthodoxy, while Colm has been described as closer to an orthodox Keynesian position than to institutionalism. See J. Dorfman, The Economic Mind in American Civilization, (New York, 1969), 5: 438-463; C.A. Hickman, J.M. Clark (New York, 1975), pp.59-60; A.W. Coats, "Review of Gruchy's Contemporary Economic Thought," op.cit., p.603; and personal interview with G. Means, June 24th, 1977.

33. M. Blaug, op.cit., p.678.

CHAPTER 2

BACKGROUND TO INSTITUTIONALISM

In order to understand the development of the institutionalist movement and its great appeal to so many American economists, it is first necessary to outline some of the salient aspects of American economic and social thought in the period between 1820 and the turn of the century. During these eighty years the United States underwent a great many changes. The nation began its industrialization, there were sharp political conflicts, new social problems, civil war, and considerable intellectual turmoil as new currents of thought upset the prevailing orthodoxies.¹ Out of these conditions came the demand for a new or "reconstructed" economics which culminated in institutionalism.²

1. For general treatments of this period see M. Curti, The Growth of American Thought (New York, 1951); V.L. Parrington, Main Currents in American Thought, vol.1 and 2, (New York, 1930); H.W. Spiegel, The Rise of American Economic Thought (Philadelphia, 1960); J. Dorfman, The Economic Mind in American Civilization, vol. 2 and 3, (New York, 1930); E.C. Kirkland, A History of American Economic Life, (New York, 1951); H.U. Faulkner, American Economic History (New York, 1954); S.P. Hays, The Response to Industrialism, 1885-1914 (Chicago, 1957); R. Hofstadter, The Age of Reform (New York, 1955); C.M. Destler, American Radicalism 1865-1901 (New London, 1946); J.H. Franklin, Reconstruction After the Civil War (Chicago, 1961); A.M. Schlesinger Sr., The Rise of the City (New York, 1933); R.B. Nye, Midwestern Progressive Politics (Michigan, 1951); J.D. Hicks, The Populist Revolt (Minneapolis, 1931); S. Fine, Laissez-Faire and the General Welfare State (Ann Arbor, 1967); M. Hillquit, History of Socialism in the United States (New York, 1971); J. Chamberlain, Farewell to Reform: The Rise, Life and Decay of the Progressive Mind in America (New York, 1932).

2. M. White, Social Thought in America: The Revolt Against

I American Economics, 1820-1860.

American economics in the period up to 1860 is usually characterised as being of an extremely poor quality.³ While there was considerable interest in economics,⁴ the discipline suffered due to low teaching standards, the small size, limited resources, and religious nature of most colleges, the "conspicuousness of a theological element" in many native works on the subject, and the political partisanship which surrounded economic debates.⁵ Few colleges offered more than one introductory course on political economy, and the approach was tightly constrained by the overriding importance of the moral philosophy course, to which economics was still closely linked.⁶ Within these limitations

Formalism (Boston, 1957). Similar demands also arose in philosophy, history, and law.

3. C.F. Dunbar, "Economic Science in America 1776-1876," North American Review 122 (1876): 124-154; F.A. Fetter, "The Early History of Political Economy in the United States," Proceedings of the American Philosophical Society 87 (1943): 59.

4. Dunbar cites lack of interest as a reason for the low quality of American economics but Smith's Wealth of Nations, Ricardo's Principles, and Say's Treatise all sold well. An American edition of the Edinburgh Review was also available from 1809 onward. See C.F. Dunbar, op.cit., pp.124-154; M.J.L. O'Connor, Origins of Academic Economics in the United States (New York, 1944), p.24; E. Teilhac, Pioneers of American Economic Thought in the Nineteenth Century (New York, 1967), p.113.

5. F. Wayland, Thoughts on the Present Collegiate System in the United States (Boston, 1842), p.78; T.E. Cliffe-Leslie, "Political Economy in the United States," in Essays in Political Economy (New York, 1969), p.137; F.A. Fetter, op.cit., p.59; R. Hofstadter and W.P. Metzger, The Development of Academic Freedom in the United States (New York, 1955)pp.185-231; C.F. Thwing, The American and German University (New York, 1928), pp.131-133; D.G. Tewksbury, The Founding of American Colleges and Universities Before the Civil War (New York, 1932), p.90.

6. J.B. Parrish, "Rise of Economics as an Academic Discipline: The Formative Years to 1900," Southern Economic Journal 34 (1967): 2; G. Bryson, "The Comparable Interests of the Old Moral Philosophy and the Modern Social Sciences," Social Forces 11 (1932/33): 19-27; G. Bryson, "The Emergence of the Social Sciences from Moral Philosophy," The International Journal of Ethics 42 (1932): 304-323; E.A.R. Seligman, "The Early Teaching of Economics in the United

two distinct schools of economics did develop in the United States; the "clerical" school, which was associated with the Protestant colleges of the north eastern United States and represented the prevailing academic orthodoxy,⁷ and the "American" or "nationalist" school, which existed largely outside of the college system and was centered in the new manufacturing areas of Pennsylvania.⁸

The Clerical School.

The clerical school included such men as J. McVickar, C. Biddle, H. Vethake, S.P. Newman, W.B. Lawrence, and F. Wayland.⁹ Their views can best be indicated by the college texts they made use of, which before 1830 were usually European.¹⁰

Among the European texts the most popular was J.B. Say's Treatise, particularly after an edition edited and footnoted by Biddle appeared in 1832. Say's Treatise was a standard college text from 1821 until the Civil War.¹¹ Say was often preferred to Smith's Wealth of Nations because of Smith's categorisation of clerics as unproductive and his tendency to support home as against foreign trade,¹² but these criticisms were based less on any

States," in J.H. Hollander, ed., Economic Essays in Honor of J.B. Clark (New York, 1927), pp.305-306; J.L. Laughlin, "Courses of Study in Political Economy in the United States in 1876 and in 1892-93", Journal of Political Economy 1 (1892): Appendix I, pp.143-151.

7. M.J.L. O'Connor, op.cit., p.153.

8. M. Hudson, Economics and Technology in 19th Century America (New York, 1975), pp.7-17; F. Fetter, op.cit., pp.54-55; M. Curti, op.cit., pp.253-258; E.V. Wills, "Political Economy in the Early American College Curriculum," The South Atlantic Quarterly 24 (1925): 150-151.

9. J. Dorfman, op.cit., 2: 512-526, 713-771; F. Fetter, op.cit., p.57; M.J.L. O'Connor, op.cit., p.213.

10. M.J.L. O'Connor, op.cit., p.213.

11. E. Teilhac, op.cit., p.113; S. Fine, op.cit., p.10.

12. M.J.L. O'Connor, op.cit., pp.153-154. S.P. Newman was something of an exception to this. See his Elements of Political Economy, 1835, (Clifton, 1973).

logical critique than on sectional interest supported by reference to "common sense."¹³ Ricardo was found too difficult for college use and there was not universal acceptance of his rent theory.¹⁴ McCulloch's 1823 article for the Encyclopedia Britannica, which contained a Ricardian rent theory, was, however, edited and used by J. McVickar who held the chair of Moral Philosophy at Columbia.¹⁵ The editing and footnoting of Say and McCulloch undertaken by Biddle and McVickar was designed to stress the importance of the merchant, argue that trade was productive, criticise the Smithian division between productive and unproductive labour, and to answer "any questioning of unrestrained freedom of aquisition" that the original authors entertained.¹⁶ McVickar went so far as to identify national wealth with the sum of individual fortunes.¹⁷ It was also argued that economics was a "moral science," McVickar stating that

what religion reproves as wrong, Political Economy rejects as inexpedient. What religion condemns as contrary to duty and virtue, Political Economy proves to be equally opposed to the peace, good order and permanent prosperity of the community.¹⁸

Other popular works included Jane Marcet's Conversations on Political Economy and Harriet Martineau's Illustrations of Political

13. See J. Dorfman, op.cit., 2: 513-517; E. Teilhac, op.cit., p.113; and M.J.L. O'Connor, op.cit., p.155.

14. M.J.L. O'Connor, op.cit., p.149; J. Dorfman, op.cit., 2: 513; J.R. Turner, The Ricardian Rent Theory in Early American Economics (New York, 1921).

15. G. Bryson, "The Emergence of the Social Sciences from Moral Philosophy," op.cit., p.310; J. McVickar, Outlines of Political Economy (New York, 1825).

16. See for instance, J. McVickar, op.cit., pp.42, 108, 155-156, 177-178; and J.B. Say, A Treatise on Political Economy, new American ed. (Philadelphia, 1847), editors advertisement, pp.vi-xii; E. Teilhac, op.cit., p.113; and J. Dorfman, op.cit., 2: 513-517.

17. J. McVickar, op.cit., pp.17, 177.

18. Ibid., p.187.

Economy, the former being used as a beginners text in even the best colleges.¹⁹ Both texts were of the populist variety and relatively unqualified in their acceptance of laissez-faire ideas. Martineau's book is particularly noticeable in this respect, Scott-Gordon pointing out that her work represents "the true fusion of ideas and confusion of understanding that is the essence of the doctrine of laissez-faire."²⁰

After 1830 clerical writers began to produce their own texts which were more suited to the religious and polemical purposes of the authors. McVickar published his Introductory Lecture to a Course in Political Economy in 1830, and H. Vethake's Principles appeared in 1838. These texts emphasised the harmony of interests between the classes, generally opposed usury laws, poor relief, or any transfer from rich to poor, and supported free banking, free trade, and laissez-faire.²¹ Considerable importance was attached to the "claims of commerce," claims which, for McVickar, were "something holy."²² There was a repeated linking of economic and moral concerns; McVickar regarded the pursuit of wealth as favourable to the formation of a moral character and a

19. M.J.L. O'Connor, op.cit., pp.111, 153; J. Dorfman, op.cit., 2: 515, 708.

20. H. Scott-Gordon, "The Ideology of Laissez-Faire," in The Classical Economists and Economic Policy, ed. A.W. Coats (London, 1971), p.708.

21. J. McVickar, Introductory Lecture to a Course in Political Economy (London, 1830); H. Vethake, The Principles of Political Economy (Philadelphia, 1838); J. Dorfman and R.G. Tugwell, "Henry Vethake," Columbia University Quarterly 25 (1933): 335-364; J. Dorfman and R.G. Tugwell, "The Reverend John McVickar," Columbia University Quarterly 23 (1931): 353-401; M.J.L. O'Connor, op.cit., pp.64-217.

22. J. McVickar, Introductory Lecture to a Course in Political Economy, p.34.

"safeguard of virtue,"²³ while Vethake felt that wealth was, in part, the result of moral living, and opposed the shortening of the work day on the grounds that the extra leisure may be used for "dissipation and vice."²⁴ Vethake also opposed unionism, arguing that unions violated the "rights of property;"²⁵ rights which most clerics saw as based on the "will of God."²⁶ For Vethake, economic principles which were "legitimately deduced" had to be in harmony with the findings of "revealed religion."²⁷

Of the clerical texts by far the most popular was F. Wayland's Elements of Political Economy, published in 1837.²⁸ Wayland took the view that "the principles of political economy are so closely analagous to those of moral philosophy that almost any question in the one may be argued on grounds belonging to the other."²⁹ In this work the merchant and cleric are praised, the poor laws and unions are attacked, as is government intervention.³⁰ In Wayland's companion volume The Elements of Moral Science he can be found arguing that "inasmuch as the value of property depends upon the unrestrained use I am allowed to make of it, for the promotion of my individual happiness, society interferes with the right of

23. Ibid., pp.4-7.
 24. H. Vethake, op.cit., pp.332-334. See also H. Vethake, An Introductory Lecture on Political Economy (Princeton, 1831), pp.2-6; and J. Dorfman and R.G. Tugwell, "Henry Vethake," op.cit., pp.352-359.
 25. H. Vethake, The Principles of Political Economy, pp.327-330.
 26. See for instance F. Wayland, The Elements of Moral Science, 2nd ed. (London, 1835), p.374.
 27. H. Vethake, An Introductory Lecture on Political Economy, p.26. Again, S.P. Newman's work contains much less in the way of theological arguments.
 28. M.J.L. O'Connor, op.cit., pp.214-216; S. Fine, op.cit., p.11.
 29. F. Wayland, Elements of Political Economy (Boston, 1837), p.iv.
 30. Ibid., pp.123-128, 373-375, 454-462. See also M.J.L.

property, if it in any manner abridge any of these."³¹ Wayland's only departure from the clerical orthodoxy was his criticism of Ricardian rent theory. Wayland viewed rent as an interest payment and argued that rent did enter into price.³²

The attitudes of the clerical writers provide a contrast to the line of thought represented by earlier English moral philosophy and by the more prominent classical economists. Both moral philosophers such as Paley and the classical writers held a reasonably pragmatic attitude to government intervention, and the use of theological arguments had very largely disappeared in England by the 1820's.³³ The American clerics placed great stress on the sanctity of property rights and on the individual pursuit of gain as a moral force. Combined with their attitudes towards commerce, this led to a much more rigid adherence to laissez-faire than is to be found in the writings of the classical economists.

The clerics were also almost exclusively deductive in their methodology. This may seem surprising given the use of texts by Say and McCulloch and the influence of Scottish Philosophy in American thought at this time, but it can be explained by the emphasis on "revealed religion," which the clerics continued to

O'Connor, op.cit., p.215; J. Dorfman, The Economic Mind in American Civilization, 2: 758-767.

31. F. Wayland, The Elements of Moral Science, p.250.

32. F. Wayland, Elements of Political Economy, pp.380-397. This attitude toward Ricardian rent theory was more common among the nationalist school. See J.R. Turner, op.cit.

33. See D.P. O'Brien, The Classical Economists (Oxford, 1975), pp.272-292; T.E. Cliffe-Leslie, op.cit., p.137. One reviewer of Wayland's Moral Science commented "I give thanks to God that I see none of that parlying with the world which is so fatal in Paley." See G. Bryson, "The Emergence of the Social Sciences from Moral Philosophy," op.cit., p.311, and F. Wayland, Elements of Moral Science, pp.356-357.

take as a truer guide to action than observation or conscience, and by the low esteem which surrounded historical and empirical work.³⁴

The Nationalist School.

The nationalist school existed largely outside of the college system and included such writers as M. Carey, and his son H.C. Carey, D. Raymond, F. List, J. Rae, A. Everett, and W. Phillips.³⁵ The outstanding characteristics of the school were its protectionist leanings and support of the manufacturing interests in Pennsylvania.³⁶ The nationalist school has been traced back to Alexander Hamilton, but it was Mathew Carey who was in the forefront of the protectionist campaigns of the early years of the century, and Daniel Raymond who first provided some theoretical basis for the school.³⁷

Unlike McVickar and other clerics, Raymond did not identify private with national wealth. His point was that private wealth could be increased by scarcity while national wealth could only be increased by adding to productive capacity, by improving the infrastructure, or by gaining national advantages or privileges in international trade.³⁸ On this basis he argued for internal

34. See F. Wayland, Elements of Moral Science, pp.121-125; J. Herbst, The German Historical School in American Scholarship (New York, 1956), pp.60-65.

35. F. Fetter, op.cit., pp.54-56; J. Dorfman, The Economic Mind in American Civilization, 2: 566-600, 771-825, 850-862, 936-945; L. Haney, History of Economic Thought, 4th ed. (New York, 1964), pp.403-424.

36. M. Hudson, op.cit., pp.45-54.

37. M. Hudson, op.cit., p.54; F. Fetter, op.cit., p.55; M.J.L. O'Connor, op.cit., pp.29-31.

38. Raymond seems to have taken this distinction between private wealth and national wealth from Lauderdale. See D. Raymond, The Elements of Political Economy, 1823, 2 vols. (New York, 1964), 1: 33-55, 151-190. See also C.P. Neill, "Daniel Raymond: An Early Chapter in the History of Economic Theory in the United States," Johns Hopkins University Studies in Historical and Political Science 15, no.4 (1897).

improvements such as the building of roads and canals, and for the protection of domestic industry.³⁹ Raymond also criticised what he saw as the pessimism of Malthus and Ricardo, arguing that investment in the improvement of land could lead to increasing returns, increasing national wealth, and higher wages.⁴⁰ This line of argument is also visible in the work of many other members of the nationalist school.⁴¹

Friedrich List who stayed in the United States between 1825 and 1832⁴² also adopted the distinction between private and national wealth, but supplemented his argument with a theory of economic stages. These stages were the savage, pastoral, agricultural, agricultural/manufacturing, and agricultural/manufacturing/commercial.⁴³ The policies a nation should follow depended, in Lists's view, on its stage of development. List concentrated on the last three stages and held that industrial growth was the principal moving force in these later stages. While he argued that free competition should prevail internally, List argued that in order to promote the development of certain nations

39. D. Raymond, op.cit., 2: 95-103, 199-253.

40. Ibid., 2: 183-203; and see also J.R. Turner, op.cit., pp.22-49; M.J.L. O'Connor, op.cit., pp.29-47; J. Dorfman, The Economic Mind in American Civilization, 2: 568.

41. J. Dorfman, The Economic Mind in American Civilization, 2: 585-597, 799-800.

42. See. W. Notz, "Friedrich List in America," American Economic Review 16 (1926): 240-265.

43. F. List, The National System of Political Economy (London, 1885). List seemed to think that a national economy had always existed. For discussion of List's work see M. Hudson, op.cit., pp.115-132; B.F. Hoselitz, "Theories of Stages of Economic Growth," in Theories of Economic Growth, ed. B.F. Hoselitz (Glencoe, 1960), pp. 193-238; C. Gide and C. Rist, A History of Economic Doctrines (London, 1919), pp.264-290; J. Schumpeter, History of Economic Analysis (New York, 1954), pp.504-505.

protectionism may be justified.⁴⁴

On method List was an inductivist, stating that "when...I visited the United States, I cast all book aside--they would only have tended to mislead me." His ideas grew out of his observation of "actual life."⁴⁵ After his return to Germany, List became one of the forerunners of the German Historical School, which when imported back to America in the 1880's was to have a profound influence on academic economics.⁴⁶

John Rae was a more peripheral member of the nationalist school although he too adopted the distinction between individual and national wealth.⁴⁷ In particular, Rae stressed the role of intelligence, forethought, and benevolence in increasing national wealth, and argued that national wealth could be diminished by waste, selfishness, and the debasement of the intellectual and moral parts of human nature.⁴⁹ Such things as luxury, fashion, and "conspicuous consumption" are criticised while great importance is attached to the advance of knowledge.⁵⁰ Indeed, Rae's

44. The ultimate Stage in List's system did involve universal free trade. See M. Hudson, op.cit., p.122.

45. F. List, op.cit., preface p.54.

46. J. Schumpeter, op.cit., p.505; and see this chapter below.

47. John Rae, Political Economy (Boston, 1834), pp.7-77; for biographical details see R. Warren James, "The Life and Work of John Rae," Canadian Journal of Economics and Political Science 17 (1951): 141-163; and the same author's two volume work John Rae Political Economist (Toronto, 1965).

48. John Rae, op.cit., pp.119-129, 208-264. See also J.J. Spengler, "John Rae on Economic Development," Quarterly Journal of Economics 73 (1959): 393-406; R.H. Deans and J.S. Deans, "John Rae and the Problems of Economic Development," Review of Social Economy 30 (1972): 97-111; and the introduction to C.W. Mixter's edition of Rae's work which he entitled The Sociological Theory of Capital (New York, 1905), pp.4-14. Rae also approached a marginal productivity theory of capital. See C.W. Mixter, "A forerunner of Bohm-Bawerk," Quarterly Journal of Economics 2 (1897): 161-190.

49. John Rae, Political Economy, pp.119-129, 265-299, 312-319.

50. John Rae, Political Economy, pp.265-299. Rae refers to

protectionism is largely justified on the grounds that tariffs may stimulate inventiveness and enterprise and that domestic production will result in gains in knowledge.⁵¹

Rae was also concerned to criticise the abstract method of the classical economists on the basis of Baconian inductivism⁵² and to demonstrate that a presumption in favour of laissez-faire could not be justified.⁵³ Rae's work was, however, felt to be insufficiently protectionist by other nationalist school members, and his work received relatively little attention in America.⁵⁴ The same cannot be said of H.C. Carey who took over leadership of the protectionist cause in the 1840's,⁵⁵ and who believed that virtually all national ills could be remedied through the use of tariffs.⁵⁶

Carey felt that in order to justify protection the "whole Ricardo-Malthusian system" would have to be overturned.⁵⁷ Carey's work is suffused with a belief in the harmony of interests, a high degree of optimism, and constant references to "God's Law."⁵⁸

Mandeville's Fable of the Bees, Remark Q, and uses the term "conspicuous consumption" which is usually uniquely associated with Veblen. See J.J. Spengler, "Veblen and Mandeville Contrasted," Weltwirtschaftliches Archiv 82 (1959): 36-38.

51. John Rae, Political Economy, pp.315-317, 384.

52. Ibid., pp.328-351.

53. Ibid., pp.358-362.

54. J. Dorfman, The Economic Mind in American Civilization, 2: 788-789. In contrast Senior and Mill both praised his work and Mill borrowed from Rae's treatment of capital. See J.S. Mill, Principles of Political Economy (London, 1903), pp.121-127.

55. Before 1842 Carey advocated free trade. See J. Dorfman, The Economic Mind in American Civilization, 2: 790-799; A.D.H. Kaplan, "The Development of Carey's Economic Thought," Johns Hopkins Studies in Historical and Political Science 49 (1931): 30-48.

56. H.C. Carey, Principles of Social Science, 3 vols. (Philadelphia, 1858-1860), 1: 28-31, 3: 440-445; A.W. Green, Henry Charles Carey, Nineteenth Century Sociologist (Philadelphia, 1951), p.137.

57. A.D.H. Kaplan, op.cit., pp.47-48.

58. Ibid., p.41; L.H. Haney, op.cit., pp.320-326; H.C. Carey, op.cit., 1: 64-146.

His major arguments, however, depended on his reversal of the Ricardian position that more fertile soils are used first. On a historical basis Carey argued that the movement was from less fertile to more fertile soils.⁵⁹ This movement is accompanied by a growth in population, capital accumulation, and an increasing degree of "association."⁶⁰ Association appears to mean an increasing division of labour and the "development of diverse employments in mutual proximity,"⁶¹ which provides greater productive power. For Carey free trade interfered with this process of growth by encouraging a dispersal of population to western lands and the concentration of industry in England.⁶² With a tariff policy Carey saw the possibility of a rising level of income for all classes and particularly for labour.⁶³ As for Malthus, Carey considered his population theory factually inaccurate and incompatible with the design of God and the harmony of interests.⁶⁴

On method Carey supported induction and the use of statistics, and was deeply critical of the deductive methods of Ricardo and Malthus.⁶⁵ Carey's books were used in some colleges in the 1860's and 1870's, but his work had little influence on the academic economics of his time.⁶⁶ His work was known in England where it was considered of very poor quality,⁶⁷ but he did have an

59. H.C. Carey, The Past, the Present and the Future, 1847 (New York, 1967), pp.10-48.

60. Ibid., p.15.

61. A.D.H. Kaplan, op.cit., p.50.

62. H.C. Carey, The Past, the Present and the Future, pp.303-304.

63. Ibid., and L.H. Haney, op.cit., pp.320-321.

64. H.C. Carey, The Principles of Social Science, 1: 64-146.

See also J.R. Turner, op.cit., pp.116-117.

65. H.C. Carey, The Principles of Social Science, 1: 9-40.

66. A.W. Green, op.cit., pp.90-91, 176-182. Carey did have more influence on later sociologists such as Durkhiem and Cooley.

67. It has been observed that Carey did not really understand Ricardian rent theory. J.S. Mill called Carey's Principles of

influence on Bastiat.⁶⁸

Clerics and Nationalists: Their Importance for Later Economics.

In terms of direct lines of influence the writers of this period had little effect on later authors. The major exception was H.C. Carey's influence on S.N. Patten, who in turn taught and influenced R.G. Tugwell.⁶⁹ It is also worth noting that Veblen was familiar with the work of John Rae.⁷⁰ Despite this lack of direct influence, it can be argued that certain characteristics of the economic thought of this period did influence later developments. First, the extreme dogmatism and laissez-faire attitudes of the clerics did continue into the 1880's, even after the religious element in orthodox economic thought had declined. This, in turn, helped to stimulate criticism of the prevailing orthodoxy. The moralism of the clerics and nationalists did not, however, die out and continued to be a feature of American economics through the turn of the century, although usually in the form of the social gospel or a more secular morality. It is also true that the nationalists' optimism, their emphasis on the distinction between private and national wealth, their stress on invention, industrial growth, and technology, their inductivism, the beginnings of evolutionism which can be found in their work, and their concern with social forces, are all elements which recur

Social Science "the worst book on political economy I ever toiled through." G. O'Brien, "J.S. Mill and J.E. Cairnes," Economica 10 (1943): 274.

68. A.D.H. Kaplan, op.cit., p.46.

69. J.L. Boswell, The Economics of Simon Nelson Patten (Philadelphia, 1933), pp.34-40; R.G. Tugwell, "The Life and Work of Simon Nelson Patten," Journal of Political Economy 31 (1923): 153-208.

70. J.J. Spengler, "Veblen and Mandeville Contrasted," op.cit., pp.35-36.

in later American economics. This native background helped to shape the response to the new currents of thought which arrived from Europe after 1860.

II Developments in Related Disciplines, 1860-1900.

In the years between 1860 and 1900 intellectual life in the United States was profoundly influenced by a number of new currents of thought. Of importance were the evolutionary ideas of Darwin, Lyell, and Spencer, the positivism and social theories of Comte, the historical scholarship and experimental science emanating from Germany, and, to a lesser extent, the arrival of socialist doctrines.⁷¹ Spencer was immensely popular in the United States, and the German influence was strengthened by the many Americans who travelled to Germany for graduate instruction where they came into contact with the "winds of new doctrine."⁷²

The overall effect was to gradually free scientific enquiry from religious restraints and absolutes, and to diminish the intellectual authority of the cleric.⁷³ At the same time the university system expanded, academic freedoms slowly increased, and philosophy, economics, psychology, sociology, and political

71. See R. Hofstadter, Social Darwinism in American Thought (Boston, 1955); H.S. Commager, The American Mind (New Haven, 1950), pp.199-224; S. Persons, American Minds (New York, 1958); P. Miller, American Thought, Civil War to World War I (New York, 1956); H.W. Schneider, A History of American Philosophy (New York, 1946); W. Riley, American Thought from Puritanism to Pragmatism (New York, 1915); W.M. Simon, European Positivism in the Nineteenth Century (Ithaca, 1963); J. Herbst, op.cit.; J.B. Parrish, op.cit., pp.3-4; M. Hillquit, op.cit.

72. R. Hofstadter, Social Darwinism in American Thought, p.33; S. Fine, op.cit., p.41; J.B. Parrish, op.cit., pp.13-16; J. Herbst, op.cit., p.131; J. Myles, German Historicism and American Economics, mimeographed (University microfilms, Ann Arbor, Michigan, 1956); J. Dorfman, "The Role of the German Historical School in American Economic Thought," American Economic Review 45 (1955): 17-22.

73. R. Hofstadter and W.P. Metzger, op.cit., pp.321-366; F. Rudolf, The American College and University (New York, 1962), pp.241-263; J. Herbst, op.cit., p.68.

science gradually emerged as separate disciplines.⁷⁴ The impact of evolutionism and historicism, and particularly the former, was felt first in the areas of philosophy, psychology and sociology. Academic economics remained relatively untouched by these new currents of thought until the 1880's and 1890's, when German historical economics was imported into the United States.⁷⁵ Nevertheless, the developments in philosophy and other social sciences were to have considerable impact on the development of institutionalist thought.⁷⁶ In part institutionalism can be seen as deriving from the attempt to incorporate these developments within a new economic theory.

Philosophy.

The appearance of works by Darwin and Spencer came as a considerable shock to the academic establishment who tended to react sharply against the "irreligion" and "materialism" of

74. The expansion of the university system also involved a German influence. See F. Rudolf, op.cit., pp.241-335; W.C. DeVane, Higher Education in Twentieth Century America (Cambridge, Mass., 1965); C.F. Thwing, op.cit., pp.12-22; R. Hofstadter and W.P. Metzger, op.cit., pp.321-378; J.B. Parrish, op.cit., pp.3-4; and J. Herbst, op.cit., pp.8-20. For information on academic freedoms see R. Hofstadter and W.P. Metzger, op.cit., pp.407-467; J.B. Parrish, op.cit., pp.11-12. It was not until 1915 that the American Association of University Professors was formed to help maintain academic freedoms. On the development of other social sciences see M. Curti, op.cit., pp.580-593; F.L. Tolman, "The Study of Sociology in Institutions of Learning in the United States," American Journal of Sociology 8 (1902/3): 85-121, 251-272, 531-558; A. Haddow, Political Science in American Colleges and Universities (New York, 1939). On economics see J.L. Laughlin, "Courses of Study in Political Economy in the United States in 1876 and 1892/3," op.cit., pp.143-151; J.B. Parrish, op.cit., pp.6-11; C.F. Dunbar, "The Academic Study of Political Economy," Quarterly Journal of Economics 5 (1901) : 400; L.C. Marshall, R.C. Chapin, and F.R. Fairchild, "The Teaching of Economics in the United States," Journal of Political Economy 19 (1911): 760-789; E.A.R. Seligman, op.cit., p.320. By the early years of the twentieth century America had developed a fully independent scholarship. See A.W. Coats, "American Scholarship Comes of Age", Journal of the History of Ideas 22 (1961): 404-417.

75. J.B. Parrish, op.cit., pp.13-16.

76. J. Dorfman, "Background of Institutional Economics," in

evolutionary ideas.⁷⁷ Evolutionism was seen as a "negation of design and purpose" which threatened an "annihilation of spirit and the destruction of moral sanctions."⁷⁸ Despite such objections evolutionism continued to gain ground and the evolutionist challenge was strengthened by the spirit of scientific and historical investigation imported from Germany.⁷⁹ From the 1870's onward there was a growing realisation that the old religious orthodoxies would no longer suffice, and various attempts were made to develop philosophies that could combine religious and scientific values.

One route that was taken was toward the idealist philosophies of Hegel and Kant. Such systems of thought became popular because they allowed a defense of the traditional concepts of humanity while incorporating evolutionary ideas into their ideal schemes.⁸⁰ Through this it could be argued that history was rational, and that

Institutional Economics: Veblen, Commons and Mitchell Reconsidered (Berkeley, 1963), pp.15-21.

77. F. Bowen, "Malthusianism, Darwinism, and Pessimism," North American Review 129 (1879): 450-472; R.C. Bannister, "The Survival of the Fittest is Our Doctrine: History or Histrionics," Journal of the History of Ideas 32 (1970): 377-398.

78. H.W. Schneider, "The Influence of Darwin and Spencer on American Philosophical Theology," Journal of the History of Ideas 6 (1945): 3-5; S. Ratner, "Evolution and the Rise of the Scientific Spirit in America," Philosophy of Science 3 (1936): 108-9; B.J. Loewenberg, "Darwinism Comes to America, 1859-1900," Mississippi Valley Historical Review 28 (1941): 339-368, and "The Controversy over Evolution in New England," New England Quarterly 7 (1935): 232-257. See also M.R. Cohen, "Later Philosophy" in W.P. Trent et al., Cambridge History of American Literature (New York, 1933) 3: 229-30.

79. J. Herbst, op.cit., p.96. Of particular importance here was the German "higher criticism," involving the historical analysis of biblical texts. See also B.J. Loewenberg, "Darwinism Comes to America," op.cit., p.347. The result was a movement away from the more literal interpretations of the Bible, and a breaking down of the "isolation of Christianity from human life."

80. Schneider puts it as follows, "there spread a general fear among moralists and theologians that unless they could come to terms with natural law and natural history they must either

man was the most exalted being in the scale of being, not the miserable and accidental consequence of a haphazard squabble.⁸¹

Kant had been taught for some time in a few colleges, and the Unitarian Church had, even before the Civil War, a transcendentalist wing centered on New England.⁸² However, in the post-Civil War period the principle centre of idealism moved to the largely self taught and largely Hegelian St. Louis group which formed around such men as Brokmeyer and Harris.⁸³ Through Harris' Journal of Speculative Philosophy and such ventures as the Concord School of Philosophy, this group helped give wide circulation to idealist arguments.⁸⁴

take the high and unorthodox ground of the Kantian Transcendentalists or renounce their pretensions to the use of inductive methods and appeal to facts." H.W. Schneider, A History of American Philosophy, p.198; and H.W. Werkmeister, A History of Philosophical Ideas in America (New York, 1949), pp.80-102.

81. P. Miller, op.cit., pp.xiv-xv. It must be noted that many of those who took to idealism were also theists; idealist doctrine being used as a substitute theology. This is particularly noticeable in the work of B.P. Bowne, whose texts were used in Methodist seminaries and colleges.

82. Men such as F. Bowen and N. Porter had taught "German philosophy diluted with dogma" before the Civil War. In 1849 L.P. Hickock brought out his Rational Psychology which was Hegelian in tone. The New England Transcendentalists included such men as Emerson who had close links with the later St. Louis movement. See W. Riley, op.cit., p.239; H.W. Schneider, A History of American Philosophy, pp.168-196; E.A. Robinson, "One Hundred Years of Philosophy Teaching in California," Journal of the History of Ideas 20, (1959): 372; and H.A. Pochman, New England Transcendentalism and St. Louis Hegelism (Philadelphia, 1948).

83. Pochman points out the heavy German influence in St. Louis at the time, while Werkmeister argues that Hegelianism became popular due to its ability to deal in a practical fashion with the "conflicting trends in American culture and of the tragedy of the Civil War" by the idea of reconciliation in a higher synthesis. Harris became United States Commissioner for Education between 1889 and 1906 and based his educational philosophy on Hegelian ideas. See H.A. Pochman, op.cit., pp.14-16; W.H. Werkmeister, op.cit., pp.56-59; and W. Riley, op.cit., pp.240-253.

84. For a history of the Concord School see H.A. Pochman, op.cit., pp.79-113; and for further information of the impact of

This influence, combined with the direct importation of Kantian and Hegelian ideas from Germany by men such as Bowne, Royce, and Morris, led to a brief capture of the academic world by idealist philosophers.⁸⁵ The impact of idealism brought with it an interest in historical investigation and a shift of focus from the individual to society as a whole, and the gradual separation of philosophy from theology.

For others who could not embrace idealist doctrines, an answer seemed to lie in the direction of an evolutionary theism, which admitted the claims of science but argued that they were entirely compatible with those of religion. The main distinction to be drawn here is between the attitudes of the Presbyterians and the Unitarians.⁸⁶

Presbyterians such as McCosh and Wright, while initially opposed to evolutionary theory, eventually came to regard Darwinism as the "Calvinistic interpretation of Nature." McCosh equated predestination with natural selection, and used this as a basis to attack Spencer and the Positivists, on the grounds that this theological Darwinism provided a justification for revealed religion, supernatural selection and design.⁸⁷

the St. Louis Group see W. Riley, op.cit., pp.240-253, and H.G. Townsend, Philosophical Ideas in the United States (New York, 1934), pp.116-130.

85. Each of these men established a school of idealist philosophy. B.P. Bowne, "Personalism" at Boston University, G.S. Morris, "Objective Idealism" at Michigan University; J. Royce, "Absolute Idealism" at Harvard University. See H.W. Schneider, A History of American Philosophy, p.245. Most idealist organisations came to an end between 1887 and 1892. See H.A. Pochman, op.cit., p.121. Both Veblen and John Dewey had training in idealist philosophy.

86. H.W. Schneider, "The Influence of Darwin and Spencer in American Philosophical Theology," op.cit., pp.5-18.

87. Ibid., and G.F. Wright, "Some Analogies Between Calvinism and Darwinism," Biblioteca Sacra 37 (1880): 48-76; J. McCosh, The

On the other hand, the Unitarian's took their inspiration from Spencer's "unknowable" and Fiske's version of Spencer which, he argued, provided a more satisfactory basis for theism than idealism.⁸⁸ Support was also given by scientists such as Asa Grey, who wished to rid Darwinism of its materialism, but disagreed with McCosh's "special providences."⁸⁹

The Unitarians such M.J. Savage, J.F. Bixby, E.D. Cope and F.E. Abbot, stressed such things as "progressive evolution through immanent design, evolutionary love, and a faith in the natural growth of intelligence, virtue and peace."⁹⁰ For these men evolution provided the "authentic key to the cosmic revelation of divine purpose."⁹¹ Evolution and progress were closely identified, and concern over social problems replaced interest in the individual's quest for salvation.

As Dombrowski points out, one of the effects of evolutionary theories on Christian thinking was that God was reduced to an "immanential factor" in the process of evolution, and a way to explain a "vague humanitarianism." God became identified with the

Development Hypothesis: Is it Sufficient (New York, 1876).

88. Spencer's "unknowable" is something "through which all things exist." Fiske transfers this into "an omnipotent power that is not identifiable with nature." See W.F. Quillion, Evolutionary Thought in America (New Haven, 1950), pp.398-419. See also J. Fiske, Outlines of Cosmic Philosophy (New York, 1892), 2: 356; H.W. Schneider, A History of American Philosophy, pp.199-201; and W. Riley, op.cit., pp.211-216.

89. S. Ratner, op.cit., p.108; B.J. Loewenberg, "The Reaction of American Scientists to Darwinism," American Historical Review 38 (1933): 693; and H.W. Schneider, "The Influence of Darwin and Spencer on American Philosophical Theology," op.cit., p.9.

90. H.W. Schneider, "The Influence of Darwin and Spencer on American Philosophical Theology," op.cit., pp.10-11.

91. S. Persons, "Evolution and Theology in America," in S. Persons, ed., Evolutionary Thought in America, pp.428-433; and S. Persons, Free Religion (New Haven, 1947).

secular world as a source of progress and "an active agent within the social order." From these developments the Social Gospel was born, a gospel that emphasised the social aspects of Christian teaching and allied itself with various reform movements.⁹²

One final reaction to the impact of evolutionism and historicism is to be found in the work of the pragmatists such as C.S. Peirce, W. James, and, later, J. Dewey. Pragmatism grew from the attempt to think through "the tangle of scientific, ethical, religious, and metaphysical ideas about evolution," by finding a "rule of method."⁹³ The earlier pragmatists, however, did not entirely remove religious and ethical considerations from their thinking.⁹⁴

Pierce rejected absolutes for a "logic of probability" and defined pragmatism as "a method of making the meaning of ideas clear by asking us to consider which of their logical consequences we are willing to act on or adopt as a possible mode of action."⁹⁵

92. J. Dombrowski, The Early Days of Christian Socialism in America (New York, 1936), pp.14-26; C.H. Hopkins, The Rise of the Social Gospel in American Protestantism, 1865-1915 (New Haven, 1940); and S. Fine, op.cit., pp.171-172. There were many Social Gospel groups, The Convention of Christian Workers (1886), The Church Association for the Advancement of the Interests of Labor (1887), The Society of Christian Socialists (1889), The Christian Social Union (1891), The American Institute of Christian Sociology (1893), and the Brotherhood of the Kingdom (1892). The Social Gospel was also linked to the "Higher Criticism." See A.W. Vernon "Later Theology" in W.P. Trent et al., Cambridge History of American Literature 3: 201-225. According to Vernon the Higher Criticism, Evolutionism and the interest in missionary work destroyed the isolation of Christianity.

93. P.P. Wiener, Evolution and the Founders of Pragmatism (Cambridge, Mass., 1949), pp.18-30; R. Hofstadter, Social Darwinism in American Thought, pp.123-135.

94. P.P. Wiener, op.cit., pp.74-95; A.J. Ayer, The Origins of Pragmatism (London, 1968), pp.183-336; W.H. Werkmeister, op.cit., pp.171-237.

95. C.S. Peirce, "How to Make Our Ideas Clear," Popular Science Monthly 12 (1878): 286-302.

As William James observed this implies that beliefs are really rules for action and that the consequences of a belief are "its sole significance."⁹⁶ According to James, the pragmatist

turns away from abstraction and insufficiency, from verbal solutions, from bad a priori reasons, from fixed principles, closed systems, and pretended absolutes and origins. He turns towards concreteness and adequacy, towards facts, towards action and towards power. That means the empiricist temper regnant and the rationalist temper sincerely given up. It means the open air and possibilities of nature, as against dogma, artificiality, and the pretence of finality in truth.⁹⁷

Pragmatism, particularly in its later form developed by John Dewey, was to have a considerable influence on the institutionalist writers of the 1920's and 1930's.

Social Psychology.

Psychology in America before 1860 was simply an extension of moral philosophy, usually based either on the Scottish faculty psychology, or occasionally on hedonistic or utilitarian ideas. Both of these psychologies were individualistic in nature and concentrated on morality or rationality as the basis of behaviour. The faculty psychology in particular placed considerable emphasis on the development of the moral sense. Both were concerned with innate properties of mind.⁹⁸

After 1860 other influences began to make themselves felt. Utilitarianism had some further influence through J.S. Mill, and Spencer and some of his American followers, such as L.F. Ward,

96. W. James, Pragmatism (New York, 1909), pp.46-47.

97. Ibid., p.51.

98. See S. Persons, American Minds, pp. 192-194; R. Hofstadter, Social Darwinism in American Thought, p.159; see also D.B. Klein, A History of Scientific Psychology (London, 1970); E.G. Boring, History, Psychology and Science (New York, 1963); and F.B. Karpf, American Social Psychology (New York, 1932); for detailed treatments of the history of psychological thought in this period.

utilised hedonistic notions.⁹⁹ In Spencer this was combined with ideas concerning the "inheritance of mental states created by use," a biological conception based on a Lamarckian theory of evolutionary change.¹⁰⁰ The influence of biology also resulted in the growth of instinct theory.¹⁰¹ While faculty psychology, hedonism, and instinct theory all postulated certain "innate predispositions," instinct theory emphasised the biological rather than the moral or rational basis of behaviour.

Evolutionism, however, also led to the consideration of the social determinants of behaviour, and from this a more genuinely social psychology began to develop.¹⁰² To begin with these social psychologies were often combined with instinct theory, which did not decline in popularity until the 1920's. In this type of theory the instincts were not seen as entirely "blind" or "immoveable".¹⁰³

American social psychologies often tended to stress an active view of mental life and the creativity and plasticity of the mind.¹⁰⁴ In this the work of William James was of considerable importance, and his ideas influenced the later functional social psychology of John Dewey.¹⁰⁵ James used the idea of instincts

99. F.B. Karpf, op.cit., pp.29, 238; C.H. Cooley, "Reflections Upon the Sociology of Herbert Spencer," American Journal of Sociology 26 (1920): 137.

100. C.H. Cooley, op.cit., p.137.

101. F.B. Karpf, op.cit., p.173.

102. In this the work of Compe and the German "folk psychologists" was important. See F.B. Karpf, op.cit. pp.15-24, 41-70.

103. McDougall's work was an example of this type of instinct theory. See F.B. Karpf, op.cit., pp.176-191. See also S. Persons, American Minds, pp.254-256. McDougall's most influential work An Introduction to Social Psychology was published in 1909. McDougall placed more emphasis on the biological than James.

104. F.B. Karpf, op.cit., p.248.

105. Ibid., pp.248-265, 328.

but regarded them as alterable by habit or reason. Habit formation he depicted as a dynamic process which stood between the instincts on the one hand and reason and intelligence on the other. Generally held habits or customs held society together.¹⁰⁶ James did not utilise the concept of culture that was available to later writers, but it can be seen that the concept of habituation allows for the passing on of acquired modes of thought and action without there being any need to refer to biological factors.

Sociology.

The greatest influences on American sociology were Spencer and Comte. Spencer was particularly influential in the United States, but few American sociologists accepted his laissez-faire views. On the other hand the Spencerian method of building up unilinear schemes of evolution was followed, and even with the more reform minded writers it was a matter of implementing those reforms which would conform to the logic of history.¹⁰⁷

Spencer constructed a scheme of social evolution which was conditioned by natural laws and the "survival of the fittest." These laws were not open to modification, and Spencer thought that the state would be behaving with "impious presumption" in attempting to interfere as legislators could never understand the full complexity of the social system.¹⁰⁸

106. W. James, Principles of Psychology, 2 vols. (New York, 1890), 1: 383-384, and 2: 368-441; F.B. Karpf, op.cit., pp.248-265.

107. R. Hofstadter, Social Darwinism in American Thought, pp.31-35, 68-69; S. Fine, op.cit., pp.41-44, 81. See K. Popper, The Poverty of Historicism (London, 1969), pp.35-54.

108. R. Hofstadter, Social Darwinism in American Thought, p.33; S. Fine, op.cit., pp.32-46; H. Spencer, Social Statics (London, 1851), pp.77-103, 293-294.

Spencer's scheme of evolution ran from the simple to the complex and from the militaristic to the industrial. Simple primitive societies are united through war and conquest, the better organised groups winning the struggle and extending their range of influence. Conquest leads to more complex social organisations in the form of class distinctions and government organisations.¹⁰⁹

Expansion via conquest cannot carry on indefinitely, and as a result of the decreasing frequency of wars the military state evolves into an industrial one. Contract replaces status, regulations concerning movement, dress and opinions become more relaxed, and society becomes more interdependent through specialisation and the division of labour.¹¹⁰ This, together with the bonds of family life, love of country, and pecuniary interest affords sufficient cohesion in society for the state to concern itself only with the regulation of abuses of free contract.¹¹¹

109. J. Rumney, Herbert Spencer's Sociology (New York, 1966), pp.130-161; H.E. Barnes, "Herbert Spencer and the Evolutionary Defence of Individualism," in H.E. Barnes, ed., An Introduction to the History of Sociology, abridged ed. (Chicago, 1966), pp.81-108; H. Spencer, Principles of Sociology (New York, 1880-1897): 241-254 and 639-640. The counterposing of differentiation and integration is a theme that runs throughout Spencer's work, as a result evolution can be seen as a movement from an "incoherent homogeneity" to a "coherent and coordinated heterogeneity." For a particularly good brief survey of Spencer's work by one of his American followers see F.H. Giddings, Sociology: A Lecture (New York, 1908), pp.29-30. For a fuller picture see Stanislaw Andreski, ed., Herbert Spencer: Structure, Function and Evolution (London, 1971).

110. Spencer was greatly optimistic, at least until the later years of his life. He maintained that "while the benefits achieved during the predatory period remain a permanent heritage, the evils entailed by it will decrease and slowly die out." He also saw society eventually reaching an ideal "ethical state." See H. Spencer, Principles of Sociology, 2: 242 and H.E. Barnes, op.cit., p.96.

111. H. Spencer, Principles of Sociology, 2: 278.

Because of Spencer's Lamarckianism he is able to argue that acquired characteristics may be transmitted to descendants.¹¹² Habitual warfare molds a certain character, as does habitual peace, but the transformation is a gradual one. Thus, Spencer can object to state interference on the grounds that man's experience of peace is so limited that such actions will only lead to a reversion to militaristic and totalitarian rule.¹¹³ Thus, in order to promote the transition from a military to an industrial society governments should keep their activities to a minimum. Progress towards the industrial state is also promoted by the removal of wasteful customs, wars, and barter, and the promotion of financial institutions and corporations.¹¹⁴

Spencer, of course, realised that there were divergences between his scheme of evolution and what could actually be observed, but he avoided this by claiming that facts that did not fit his scheme were "incidental" and did not "relate to the knowable nature of society."¹¹⁵ Divergences between his industrial type of society and observed reality were explained as survivals from old institutional types; as old form of militancy rather than as a product of the industrial system itself.¹¹⁶ Weaknesses such

112. Spencer was defending Lamarckianism as late as the 1890's when nearly all biologists had abandoned it. It enabled Spencer to claim a plausible unity between the subject matter of sociology and Natural Science. See J.D.Y. Peel, ed., Herbert Spencer on Social Evolution (Chicago, 1972), pp.xxii-xxiii.

113. F.H. Giddings, op.cit., pp.29-30.

114. H. Spencer, Principles of Sociology, 3: 338-39, 526-34.

115. J.D.Y. Peel, op.cit., pp.xxviii-xxix.

116. It must be noted that Spencer never regarded his description of military and industrial societies as Weberian Ideal Types but as "generalised descriptions of reality." This together with Spencer's use of the "comparative" method represent major methodological weaknesses in Spencer's work. See H. Becker and H.E. Barnes, Social Thought From Lore to Science, 3rd ed. (New York, 1961): 743-790; and J.D.Y. Peel, op.cit., pp.xxxiv-xxxv.

as these stemmed directly from Spencer's methodology. This method "was considered valid in reconstructing the record of social development" by linking together "isolated examples of any type of culture,...irrespective of the totality of the cultural complex from which each was lifted,...into a prearranged schema," which was then held to be the natural course of evolution.¹¹⁷

Sumner, Professor of Political Economy at Yale, had renounced his Episcopalian ministry in order to teach, and although he retained a strong moralism in his work, he saw himself as a scientist opposed to the sentimentality and romantic idealism of his age.¹¹⁸ Sumner's ideas were built, more directly than Spencer's, on the foundation of the theories of Malthus and Martineau, and on the early, extremely conservative, German historical scholars.¹¹⁹ Sumner shared Spencer's laissez-faire ideas but did not automatically equate evolution with progress.¹²⁰

117. J. Becker and H.E. Barnes, op.cit., p.748. Spencer was one of the more extreme proponents of this method, but most early sociologists and anthropologists used it as indeed they had to, there being insufficient data available for any other. The problem in finding an acceptable methodology for historical sociology was to occupy many writers such as Durkheim, Hobhouse, and Weber. In this connection Becker and Barnes talk about the "debacle" of social evolutionism. See also H.E. Barnes, "The Development of Historical Sociology," Publications of the American Sociological Society 16 (1921): 17-49.

118. H.E. Barnes, "William Graham Sumner: Spencerianism in American Dress," in H.E. Barnes, ed., op.cit., pp.391-192. Hofstadter suggests Calvinist influences in Sumner's work, and likens him to "some latter day Calvin" come "to preach the pre-destination of the social order and the salvation of the economic elect through the survival of the fittest." R. Hofstadter, Social Darwinism in American Thought, p.66.

119. S. Fine, op.cit., pp.80-81; anon., "Sketch of William Graham Sumner," Popular Science Monthly 35 (1889): 261-269; and J. Myles, German Historicism and American Economics, pp.123-124. The early historicists believed that social life was governed by "Unchangeable and merciless laws" which could be revealed through historical study. Sumner took his theological training in Gottingen between 1863 and 1866.

120. S. Fine, op.cit., pp.80-81.

Sumner argued against state intervention on the grounds that legislators possessed inadequate knowledge, and that attempts to decocratise capitalism would only lead to the "capitalising of democracy." This he felt could only lead to the concentration of power and plutocracy, and the crushing out of the middle classes. Sumner took his ideas to their logical conclusion and was not simply a spokesman for the status quo. Throughout his life he fought against the "plutocracy, jobbery and privilege" which he saw as the result of the misuse of political power.¹²¹ He had no objection to labour unions, or for most of his life, to trusts and combines, both of which he saw as the natural result of economic evolution. He considered "industrial war" as normal and natural and the only way of solving questions which could never be solved in any other way. To Sumner strikes were a sign that labour was doing well, as starving men do not strike.¹²²

As can be seen from this Sumner made a sharp distinction between "economic and political power, between wealth created and applied on a free market, and that exploited by privilege on a rigged market." Sumner's answer to the plutocrat is to separate

121. W.G. Sumner, "Democracy and Plutocracy," reprinted in S. Persons, ed., Social Darwinism (Englewood Cliffs, 1963), pp.70-97; and D. Armentano, The Political Economy of William Graham Sumner: A Study in the History of Free Enterprise Ideas, mimeographed (University Microfilms, Ann Arbor, 1966), pp.67-75, 158. Sumner championed the "forgotten man" of the middle class who he felt had to bear the cost of most legislation designed to help others, either the poor or the plutocrats. For Sumner's work on the middle classes see W.G. Sumner, The Forgotten Man and Other Essays (New Haven, 1919); A.G. Keller, "The Discoverer of the Forgotten Man," The American Mercury 27 (1932): 257-270; M. Smith, "William Graham Sumner: the Forgotten Man," The American Mercury 71 (1950): 357-366.

122. D. Armentano, op.cit., pp.89-104; and W.G. Sumner, "Do We Want Industrial Peace?," in War and Other Essays (New Haven, 1911), pp.233-239.

state and market and to keep economic power within the scope of the market system through the implementation of a genuine laissez-faire system.¹²³

While there is no doubt that Sumner sometimes used Darwinian language in his polemical utterances, as for instance when he claimed that the only alternatives were the survival of the fittest or the "survival of the unfittest," there is equally little doubt that this side of Sumner's work has been overstated.¹²⁴ Persons has claimed that this aspect of Sumner's work is only "incidental,"¹²⁵ Sheketoff argues that Sumner arrived at a doctrine of Christian responsibility which anticipated the Social Gospel movement,¹²⁶ Curtis notes that towards the end of his life Sumner argued for government intervention to preserve competition,¹²⁷ and Bannister points out that after 1884 Sumner dropped the use of the term "survival of the fittest," replacing it with a distinction between the struggle for existence between man and nature and the competition

123. D. Armentano, op.cit., p.82; and W.G. Sumner, "The State and Monopoly," in Earth Hunger and Other Essays (New Haven, 1913), p.276. Sumner of course saw the tariff as a prime example of plutocratic manipulation.

124. For instance R.C. Bannister claims that Hofstadter utilises almost every single example of Sumner's relatively infrequent use of this kind of rhetoric in building up his case for regarding Sumner as a "social Darwinist." Bannister argues this is an inaccurate representation. See R. Hofstadter, Social Darwinism in American Thought, pp.45-66 and "William Graham Sumner: Social Darwinist," New England Quarterly 14 (1941): 457-477; and compare with R.C. Bannister, "William Graham Sumners Social Darwinism: A Reconsideration," History of Political Economy 5 (1973): 89-109; and H.E. Starr, William Graham Sumner (New York, 1925).

125. S. Persons, ed., Social Darwinism, introduction, p.3.

126. R.C. Bannister, "William Graham Sumner's Social Darwinism: A Reconsideration," op.cit., p.91.

127. B.E. Curtis, "William Graham Sumner 'On the Concentration of Wealth'", Journal of American History 55 (1969): 823-32; and The Middle Class Progressivism of William Graham Sumner, mimeographed (University Microfilms, Ann Arbor, 1964).

among men.¹²⁸

Sumner gradually turned his attention to the latter, thereby pushing nature and biology into the background in order to concentrate on the social system and the forces within it that determine its evolution. This is displayed in Sumner's Folkways, which although not published until 1907 contained the views he had been developing in his teaching for some twenty years previously.¹²⁹

As Ball points out, this book was principally concerned with the relationship between the forces for stability and the forces towards change,¹³⁰ the critical factor in this relationship being the folkways. Sumner defined folkways as a body of customs shared by a group and arising from efforts to satisfy needs; a mass phenomenon that "produces habit in the individual and custom in the group."¹³¹ Mores, according to Sumner, were a subclass of folkways that have "connotations of right and truth in respect to welfare embodied in them."¹³² Each class or group in society has its own set of mores, although other mores may be common to the whole society.

The folkways and mores produce laws and institutions. An institution is defined as a "concept (idea, notion, doctrine, interest) and a structure."¹³³ Sumner traced the development of

128. R.C. Bannister, "William Graham Sumner's Social Darwinism: A Reconsideration," op.cit., p.90.

129. H.V. Ball, "Law and Social Change: Sumner Reconsidered," American Journal of Sociology 67 (1962): 533; and W.G. Sumner, Folkways (New York, 1959), preface p.iii.

130. H.V. Ball, op.cit., p.533.

131. W.G. Sumner, Folkways, pp.2-3.

132. Ibid., p.38.

133. Ibid., p.53.

such things as marriage and property from folkways to institutions as follows:

They began in folkways. They became customs. They developed into mores by the addition of some philosophy of welfare, however crude. Then they were made more definite and specific as regards the rules, the prescribed acts, and the apparatus to be employed. This produced a structure and the institution was complete.¹³⁴

Laws too develop out of folkways and mores, and legislation, in order to be effective, must be consistent with mores. Likewise philosophy and ethics he regarded as secondary and derived from folkways rather than as determining forces in themselves.¹³⁵

Mores are resistant to change through their regular use or through their becoming conventionalised or institutionalised. This means that crises may occur when changing conditions, for instance discoveries, inventions, or conscious reflection and criticism, bring conflicts with the mores and demand for change by the masses.¹³⁶ Sumner argues that this situation leads to reform or revolution, which he sees as "arbitrary action on the mores" through the implementation of new dogmas and principles. But as dogmas do not make new mores, the result is confusion and the regaining of power by the old ruling class.¹³⁷ According to Sumner deliberately induced change is possible only by changing conduct, which will eventually lead to the creation of new mores, folkways and institutions, a slow process at the best of times,¹³⁸

134. Ibid., p.54.

135. H.V. Ball, op.cit., p.533.

136. Ibid., p.534, and W.G. Sumner, Folkways, pp.86-115.

137. H.V. Ball, op.cit., pp.535-536; and W.G. Sumner, Folkways, p.86.

138. H.V. Ball, op.cit., p.538; and W.G. Sumner, Folkways, p.94.

but far from impossible. Nevertheless, Sumner's reputation among his contemporaries was conditioned largely by his earlier more dogmatic and strictly laissez-faire attitudes.

Among the more reformist writers the work of L. Ward, L.H. Morgan, and F.H. Giddings is perhaps of most significance, Morgan being an anthropologist and Ward and Giddings sociologists. L. Ward in his three major works, The Psychic Factors of Civilization, Dynamic Sociology, and Pure Sociology, argued that natural selection had produced intelligence in man which enabled him to consciously alter his surroundings.¹³⁹ In order that change be undertaken wisely he advocated mass education and the establishment of a central bureau of statistics.¹⁴⁰ Ward, who was also influenced by Comte, regarded sociology as "standing at the head of the entire series" of other sciences. Sociology according to Ward "is enriched by all the truths of nature and embraces all truth. It is the Scientia Scientiarum," thus legislators should all be trained sociologists.¹⁴¹

Ward contributed greatly to attacks on Spencer and Sumner, popularising the term "Social Darwinists" in the process. Ward accused Sumner of degrading human activity "to a complete level

139. H.E. Barnes, "Lester Frank Ward: The Reconstruction of Society by Social Science," in H.E. Barnes, ed., op.cit., pp.126-143; and L.F. Ward, Dynamic Sociology, 2nd ed. (New York, 1897), 1: 56-57; and the Psychic Factors of Civilization (Boston, 1893), pp.242-244.

140. L.F. Ward, "The Way to Scientific Law Making," in Glimpses of the Cosmos (New York, 1913-1918) 2: 168-171; and, Dynamic Sociology, 1: 12-27, 2: 593-633.

141. L.F. Ward, Pure Sociology (New York, 1903), p.91; and "Sociology and Economics," Annals of the American Academy of Political and Social Science 13 (1849): 230-234.

with those of animals" and criticised Sumner's What Social Classes Owe to Each Other on the grounds that Sumner confused "fitness to survive" with "real superiority."¹⁴² Spencer and Sumner he lumped together with free traders and "English negative economists" as the "laissez-faire school."¹⁴³ He attacked this "school" by arguing that they were ignoring the actual trend of events, that their arguments were based on the false presumption that social phenomena were outside human control, and that their assumption that natural laws represent something efficient or beneficent was simply a form of mysticism.¹⁴⁴ He also took the view that business opposition to state interference was based on the fear that the labourer and artisan would get to share in the legal protection that business already enjoyed. To Ward laissez-faire was a sham indulged in by those wishing to protect their own interests,¹⁴⁵ and completely opposed to his own ideal of "sociocracy," that is "the scientific control of social forces by the collective mind of society."¹⁴⁶ Ward was to have considerable

142. See R. Hofstadter, Social Darwinism in American Thought, pp.67-84; and R.C. Bannister, "The Survival of the Fittest is Our Doctrine: History or Histrionics," Journal of the History of Ideas 31 (1970): 393-396. Later on Ward himself was to be accused of "Social Darwinism" because he had argued in favour of negative eugenics and the "struggle" school of sociology. See also L.F. Ward, "Professor Sumner's Social Classes" in Glimpses of the Cosmos, 3: 301-5.

143. L.F. Ward, "The Scientific Basis of Positive Political Economy," in Glimpses of the Cosmos, 3: 32-48; and R. Hofstadter, Social Darwinism in American Thought, pp.72-73.

144. Ward uses a biological analogy arguing that the domestication of plants and animals has resulted in great gains in efficiency through a process that cannot be called "natural." See Dynamic Sociology, 1: 35-59, and "The Sociological Basis of Protection and Free Trade," in Glimpses of the Cosmos, 4: 186-189.

145. L.F. Ward, Psychic Factors of Civilization, pp.319-322; and S. Fine, op.cit., pp.261-262.

146. L.F. Ward, "Politico-Social Functions" in Glimpses of the Cosmos, 2: 335-341; and S. Fine, op.cit., p.263. Ward as well as Bellamy was rediscovered at the time of the New Deal, see S. Chugerman, Lester F. Ward, The American Aristotle (Durham, North Carolina, 1939).

influence on the development of American sociology through writers such as A.W. Small and E.A. Ross.

L.H. Morgan gave an account of the cultural evolution of peoples which gave a primary role to technological advance, for Morgan culture advanced as man extended his control over his environment and could enlarge his means of subsistence.¹⁴⁷ Institutions according to Morgan are the ways in which societies organise themselves to use their technology. As technology advances so institutions must change.¹⁴⁸

Morgan distinguished between "ancient society", based on personal relationships, and "civil society" based on territory and property, and it is the idea of property and the institutions connected with it that, for Morgan, plays the key role in determining the shape of a society.¹⁴⁹ Morgan argued that primitive society was communalistic, but through technological changes field agriculture and fixed settlements became established. With the development of money private property arose, leading to competition, aristocracy, and slavery. Slavery was only abolished upon the discovery that the "freeman was a better property making machine" than a slave.¹⁵⁰

Morgan traces the development of the idea of property from its feeble state in the mind of the savage to its arrival as the

147. L.A. White, "Lewis Henry Morgan: Pioneer in the Theory of Social Evolution," in H.E. Barnes, ed., op.cit., pp.109-125; J.W. Powell, "Sketch of Lewis H. Morgan," Popular Science Monthly 18 (1880): 114-121; L.H. Morgan, Ancient Society (New York, 1877), pp.22-26.

148. Morgan, however, was not always consistent. He sometimes seems to have talked about "primary germs of thought" as resulting in the development of institutions. See L.H. Morgan, op.cit., pp.3-61.

149. L.A. White, op.cit., pp.115-120; and L.H. Morgan, op.cit., pp.389-551.

150. L.H. Morgan, op.cit., p.505.

"master passion of civilised man." This passion he saw as leading to self destruction and the establishment on a "higher plane" the "liberty, equality and fraternity of the ancient gentes."¹⁵¹ The motive power behind this transformation being the working man who, when the time comes, "will have to rise upon the merchants and traders as well as the aristocrats and push them out of the way in one body."¹⁵²

F.H. Giddings started from the view of society as an organism controlled by natural laws. This view allowed less room for the operation of cultural factors than is found in either Ward or Sumner,¹⁵³ but Giddings was also influenced by Comte's views on the need for a basic social science, by Ward's views of sociology as a guide for social reform, and by Adam Smith's notion of reflective sympathy, which Giddings translated as "consciousness of kind."¹⁵⁴

Giddings' view of social evolution was from groups based on ethnic unity to those based on civil unity, a process that consists of the substitution of open groups for closed groups in politics,

151. L.H. Morgan, op.cit., p.552. Morgan uses the term "gentes" instead of the more common word "clans."

152. Quoted by L.A. White, op.cit., p.120, from L.A. White, ed., Extracts from the European Travel Journal of Lewis H. Morgan (New York, 1937), p.269. There has been considerable debate over how "scientific" Morgan actually was. See L.A. White, "Morgan's Attitude towards Religion and Science," American Anthropologist 46 (1944): 218-30; and R.H. Lowie, "Lewis H. Morgan in Historical Perspective," in R.H. Lowie, ed., Essays in Anthropology (Berkeley, 1936).

153. C.H. Northcott, "The Sociological Theories of Franklin Henry Giddings: Consciousness of Kind, Pluralistic Behaviour, and Statistical Method," in H.E. Barnes ed., op.cit., pp.180-201. Giddings was to become Professor of Sociology at Columbia University in 1894. See also F.H. Hankins, "Franklin Henry Giddings, 1855-1931: Some Aspects of His Sociological Theory," American Journal of Sociology 37 (1931): 349-367.

154. C.H. Northcott, op.cit., p.184; and F.H. Giddings, Principles of Sociology (London, 1902), pp.199-360. In fact the

religion, trade, and education. In civil society the "social mind" operates through the state, which has the function of perfecting social organisation and which may well involve economic functions.¹⁵⁵ To Giddings "society is a means to a definite end, namely the survival and improvement of men through a continuing selection of intelligence and sympathy."¹⁵⁶ In this, social control has an important part to play in the restraint of the anti-social. But social controls can go too far leading to a rigidity of social structure, and a balance must always be made between restraint and freedom.¹⁵⁷

These ideas tended to make Giddings more conservative than Lester Ward but less so than Spencer or Sumner. In his earlier work Giddings tended to a fairly dogmatic line, arguing that economic laws were inexorable,¹⁵⁸ but in later work he was prepared to contemplate limited experiments in state and municipal ownership as long as the state realised that it "must not break

total scheme runs from Zoogenic to Anthropogenic to Ethnic to Civil Society. Civil Society is seen as evolving through Military/Religious, Liberal/Legal and Economic/Ethical stages.

155. Giddings, however, placed this process within tight constraints arguing that if the thing willed does not contribute to social survival "there is presently an end of social willing along those lines," F.H. Giddings, The Theory of Sociology (Philadelphia, 1894), pp.71-72. Ward rather objected to this high degree of determinism. L.F. Ward, "Principles of Sociology," Annals of the American Academy of Political and Social Science 4 (1894): 582-614.

156. F.H. Giddings, Studies in the Theory of Human Society (New York, 1922), p.246.

157. The form and degree of social constraint is connected with the type of society. Giddings lists eight types, sympathetic, congenial, approbational, despotic, authoritative, conspiratorial, contractual, and idealistic. Giddings compares social control with natural selection. C.H. Northcott, op.cit., pp.189-193; and F.H. Giddings, Principles of Sociology, p.36.

158. F.H. Giddings, Democracy and Empire (New York, 1900), pp.137-143; and S. Fine, op.cit., pp.268-272.

the spirit of a free people or discourage their initiative."¹⁵⁹

In his writings on economics Giddings castigated classical economists for their "pre-Darwinian" assumption of an unchanging human nature. He argued that the state of consciousness of a people was a function of physical and social conditions and that different mentalities have been displayed at different stages in social evolution. Giddings distinguished organic, instinctive, and rational stages, the last being divisible into ceremonial and business periods.¹⁶⁰

Giddings also put great emphasis on the need for careful historical, statistical, and comparative studies of institutions, customs, and human nature, and was extraordinarily well acquainted with works on anthropology and history. Thus, although Giddings was still using a Spencerian methodology, he applied it with none of the naivety to be found in Spencer or Morgan.¹⁶¹ The real challenge on methodological issues was, however, to come from the historical schools which centered in Germany but had great influence in England and the United States as well, and from the

159. F.H. Giddings, The Responsible State (London, 1919), pp.93-108. Giddings also championed profit sharing schemes. See F.H. Giddings, "The Theory of Profit Sharing," Quarterly Journal of Economics 1 (1887): 367-376.

160. F.H. Giddings, "The Sociological Character of Political Economy," American Economic Association Publications 3 (1888): 20-47; "The Economic Ages," Political Science Quarterly 16 (1901): 193-221. Giddings integrated this scheme with his earlier ones as follows: Organic became equivalent to Zoogenic, Instinctive to Anthropogenic, Ceremonial to Ethnogenic and Transition to Civic, and Business to Civic. Giddings considered the neo-classical economics of J.B. Clark to be the correct approach for analysing the rational business stage of social evolution.

161. H. Becker and H.E. Barnes, op.cit., p.750.

field of ethnology, where Ehrenreich in Germany and F. Boas in America had developed what has become known as the historical/analytical school of ethnology. Boas' work was based on the view that the social history of any particular people could not be reconstructed on the basis of any general evolutionary scheme. This, however, did not prevent the drawing of parallels between certain aspects of different cultures.¹⁶² Boas' work also has interest because of his studies of the Kwakiutl Indians of British Columbia in which he noted the ostentatious and wasteful uses to which wealth was put in order to demonstrate social superiority. He argued that this behaviour was "founded on psychical causes as active in our civilised society as among the barbarous natives of British Columbia."¹⁶³

III American Economics, 1860-1900.

In the years immediately after the Civil War academic political economy remained within the traditions of the earlier Clerical and Nationalist Schools. Wayland's Elements was brought out in a revised edition by A.L. Chapin, and was in use at least as late as 1878.¹⁶⁴ A.L. Perry's Elements, Amasa Walker's The

162. H. Becker and H.E. Barnes, op.cit., pp.768, 789. J. Dorfman argues that Boas' method came near to that followed by later institutionalists. See J. Dorfman, "The Background of Institutional Economics," op.cit., p.19.

163. F. Boas, "The Social Organisation and the Secret Societies of the Kwakiutl Indians," Annual Report of the Board of Regents of the Smithsonian Institution (1895); and "First General Report on the Indians of British Columbia," Report of the Fifty-ninth Meeting of the British Association for the Advancement of Science (1889).

164. J. Dorfman, Thorstein Veblen and His America (New York, 1934), pp.22-26. Veblen was taught from this edition at Carlton. Chapin was to remark that "it is obvious, upon the slightest reflection that the Creator has subjected the accumulation of the blessings of this life to some determinate laws." According to Chapin riots and disturbances were caused by "ignorance and prejudice" which could be corrected by teaching the principles of political economy in order to demonstrate "the wisdom and beneficence of the Deity."

Science of Wealth and F. Bowen's American Political Economy were also in use at this time.¹⁶⁵ With the exception of Bowen's protectionism, all the writers took strictly laissez-faire attitudes, and emphasised the harmony of interests.¹⁶⁶ Religious arguments were used, particularly by Bowen and Perry,¹⁶⁷ and attacks on Malthus and Ricardo were a common feature. Bowen used arguments borrowed from Rae and Carey and both Perry and Walker treated land as capital.¹⁶⁸ Walker's arguments were often weak and displayed a "businessman's attitude."¹⁶⁹ Carey's works were also in college use, and an abridged edition of his Principles of Social Science was popular at least until 1888.¹⁷⁰ Carey

165. J. Dorfman, The Economic Mind in American Civilization, 3: 80-81. J.S. Mill's Principles although popular was not used in colleges. Bowen's book was less popular than Wayland, Perry, or Walker.

166. J. Dorfman, The Economic Mind in American Civilization, 3: 49-50, 57; and S. Fine, op.cit., pp.47-79. Bowen even opposed the national banking system, see F. Bowen, American Political Economy (New York, 1870), pp.367-393, and J.R. Turner, op.cit., pp.143-158, 170, 181. Walker was also slightly influenced by Bastiat, but not to the same extent as Perry, who thought Walker "too much in bondage to Adam Smith."

167. Bowen stated "I do not accept these gloomy views of the course of nature and Providence. I do not believe that any increase in the number of civilised Christian inhabitants of the earth is an evil, or that it entails any, even upon coming generations." F. Bowen, op.cit., pp.157-8; Perry argues that the laws of exchange are based on the will of God, that the influence of Christianity leads towards free trade, and that the mutual dependency of employer and employee is ordained by God. See A.L. Perry, Elements of Political Economy, 7th ed. (New York, 1872), pp.93-100, 136, 392-393. Walker was more restrained but his work still shows great "moral enthusiasm" and he wished to write a political economy of the Bible. See A. Walker, The Science of Wealth (Boston, 1866); and J.P. Munroe, A Life of Francis Amasa Walker (New York, 1923), pp.21-22.

168. F. Bowen, op.cit., pp.125-168. Bowen argued that the great preventative check for population growth was the fear of losing social rank. His arguments against Ricardo were based on an observation of the "facts" not dissimilar from Carey's, but he argued that because Ricardian rent theory did not fit American facts it was consequently also untrue in its application to Europe. See also J.R. Turner, op.cit., pp.143-158, 181-183.

169. J.R. Turner, op.cit., pp.165-174.

170. A.W. Green, op.cit., pp.178-180.

continued writing until 1872 and his ideas found followers in the form of men such as E.P. Smith and R.E. Thompson.¹⁷¹

From this it can be seen that Dunbar's categorisation of the economic attitudes of the 1860's and early 1870's as "stalled" is not without justification.¹⁷² but this situation could not remain unchanged for long. On the one hand a group of writers emerged who, while still, on the whole, in the extremely conservative orthodox tradition of the clerical school, were largely free from religious influences and provided a much higher caliber of economic reasoning. On the other hand opposition to this orthodoxy began to emerge from a number of sources.

The Orthodox Tradition.

The best known of the orthodox writers in this period are C.F. Dunbar, S. Newcomb, F.A. Walker, and J.L. Laughlin.¹⁷³ All of these men were much closer to the mainstream of classical economics than their predecessors, but not withstanding this their work was generally directed towards the immediate practical economic problems facing the United States, and, with the possible exception of F.A. Walker, they were extremely dogmatic and regarded economics "as a body of concrete propositions from which

171. M. Hudson, op.cit., pp.212-254. See also J.H.S. Bossard, "Robert Ellis Thompson--Pioneer Professor in Social Science," American Journal of Sociology 35 (1929): 239-249.

172. C.F. Dunbar, "The Academic Study of Political Economy," op.cit., p.402.

173. J. Dorfman, The Economic Mind in American Civilization, 3: 82-87, 102-109, 258-275; A. Bornemann, J. Laurence Laughlin (Washington, 1940); A.T. Hadley, "Francis A. Walker's Contribution to Economic Theory," Political Science Quarterly 12 (1897): 295-308; S. Fine, op.cit., pp.47-49; F.A. Walker, "Recent Progress of Political Economy in the United States," American Economic Association Publications, 1st ser. 4 (1889): 243-268; J.L. Laughlin, "F.A. Walker," Journal of Political Economy 5 (1897): 229-236, and "C.F. Dunbar," Journal of Political Economy 8 (1900): 234-238; and J.H. Hollander, "Economic Investigation in the United States," Yale Review 12 (1903): 25-31.

definite explicit policy conclusions could be drawn."¹⁷⁴

Dunbar gained the professorship of economics at Harvard, replacing Bowen whose views on trade and the national debt had earned him considerable disfavour.¹⁷⁵ Dunbar, at all times a cautious writer, confined his interest principally to the fields of money and banking, and never wrote a general treatise. Although Dunbar's work had relatively little direct influence, his emphasis on the role of credit provided inspiration for Laughlin's important studies on money and banking. Dunbar also launched the Quarterly Journal of Economics in 1886, the first journal of its kind.¹⁷⁶

S. Newcomb, an early champion of W.S. Jevon's, was principally a mathematician and astronomer, but produced his important Principles of Political Economy in 1885.¹⁷⁷ One of his major

174. Taussig was to remark of the period when Laughlin, Dunbar and himself were all teaching at Harvard (1886-1890) "Just as Dunbar gave most attention to money and public finance, so Laughlin gave most attention to the then emerging silver controversy, while Taussig plunged into the ever persisting tariff wrangle." F.W. Taussig, "Economics: 1871-1928" in S.E. Morison, ed., The Development of Harvard University Since the Inauguration of President Eliot, 1869-1929 (Cambridge, Mass., 1930), p.190. See also A.W. Coats, "The American Political Economy Club," American Economic Review 51 (1961): 633.

175. J. Dorfman, The Economic Mind in American Civilization 3: 63-65. Bowen was a strong protectionist and held that the national debt should be paid in gold.

176. See A. Bornemann, op.cit., pp.14-16, 59; J.L. Laughlin, "C.F. Dunbar," op.cit., pp.234-238; and C.F. Dunbar, "Deposits as Currency," Quarterly Journal of Economics 1 (1887): 401-419.

177. S. Newcomb, Principles of Political Economy (New York, 1885); of this book Schumpeter has said "probably the best book of the principles type written between Mill and Marshall" and J.M. Keynes has called it "one of those original works which a fresh mind... is able to produce from time to time; and it still today deserves perusal." See J. Schumpeter, "Professor Taussig on Wages and Capital," in Explorations in Economics: Notes and Essays in Honor of F.W. Taussig (New York, 1936), p.148; and J.M. Keynes, Treatise on Money (New York, 1930) 1: 233.

concerns was with variation in the purchasing power of money, which led him to develop his "equation of exchange," a formulation of the quantity theory that was to form the basis of Irving Fisher's later work.¹⁷⁸ Nevertheless, he was "an out and out laissez-faire doctrinaire," and bitterly opposed the populist and free silver campaigns.¹⁷⁹ C.S. Peirce was to describe his work as serving to "hide from author and reader alike the ugly nakedness of the greed-god."¹⁸⁰

J.L. Laughlin contributed important works to the debate on money, criticising the quantity theory of money. In this criticism Laughlin emphasised the role of credit, argued that prices varied independently of the amount of gold in circulation, and held the view that the quantity theory did little more than show "that the force regulating price is price."¹⁸¹ It was Laughlin's criticisms that provoked the debate culminating in Fisher's reformulation of the quantity theory and it has also been suggested that Wesley Mitchell's work on the Greenbacks was an attempt to investigate Laughlin's position.¹⁸²

178. See T.W. Hutchison, A Review of Economic Doctrines 1870-1929 (Oxford, 1953), pp.269-271; and S. Newcomb, op.cit.

179. S. Fine, op.cit., pp.53-56; S. Newcomb, "The Let Alone Principle," North American Review 110 (1870): 1-33; A Plain Man's Talk on the Labor Question (New York, 1886).

180. C.S. Peirce, quoted by C.W. Mills, Sociology and Pragmatism (New York, 1966), p.197. Newcomb did indeed remark that "It is a great mistake to suppose that the enormous inequalities which we see in wealth imply anything wrong in the system which permits them," S. Newcomb, Principles of Political Economy, p.516.

181. A. Bornemann, op.cit., pp.68-85; and J.L. Laughlin, The Elements of Political Economy (New York, 1887); and the Principles of Money (New York, 1903).

182. A. Bornemann, op.cit., pp.79-83. Laughlin considered that Fisher's reformulation set out the problem in a better form, but did not constitute a solution. Also see below Chapter 6.

Laughlin was also a dogmatic and conservative man who campaigned actively in 1896 against the free silver and populist programs and tended to slip into advocacy and propaganda in his classes.¹⁸³ This side of Laughlin's character can perhaps be best displayed by his edition of J.S. Mill's Principles which he brought out in 1884.¹⁸⁴ Laughlin cut out all of Mill's qualifications and questioning of competition and the rights of property.¹⁸⁵ On the other hand, he founded the Political Economy Club through which he genuinely attempted to advance the standard of economic discussion, encouraged and made use of historical and statistical methods, launched the Journal of Political Economy, and, as professor at Chicago, built up a department, which included such unorthodox figures as Veblen, Hoxie, Mitchell, and Walton Hamilton.¹⁸⁶ Hamilton maintained that Laughlin was in the best traditions of the Classical School.¹⁸⁷

183. Ibid., pp.18-19, 39-45; and S. Fine, op.cit., pp.56-57, 70-71; and J. Dorfman, The Economic Mind in American Civilization 3: 226-227. Referring to the free silver campaign Laughlin remarked, "Behind silver lies a whole thistle crop of ideas, with which we must eventually deal. We shall have to face various schemes of redistribution of property, even after the silver question is gone."

184. C.A. Beard, "The Idea of Let Us Alone" Virginia Quarterly Review 15 (1939): 500-514; and S. Fine, op.cit., p.57.

185. C.A. Beard, op.cit., p.514. Bornemann puts a kind interpretation on Laughlin's actions, arguing that he wished to separate the logical principles from Mill's personal reflections. A. Bornemann, op.cit., p.12.

186. A.W. Coats, "The American Political Economy Club," op.cit., pp.624-633, and A. Bornemann, op.cit., pp.3-9, 28, 70-71, 90-93. See also J.L. Laughlin, The History of Bimetallism in the United States, 2nd ed. (New York, 1896); and "Gold and Prices," Quarterly Journal of Economics 1 (1887): 319-355, 385-399 for examples of his use of historical and statistical methods. Laughlin also developed the use of seminar methods at Chicago, and soon after his arrival there, was offering some nineteen courses in political economy in his department. On the other hand he never really took to the lecture method, preferring the use of recitation.

187. W. Hamilton, "The Development of Hoxie's Economics," Journal of Political Economy 24 (1916): 857. Hamilton's comment is supported by J.D. Magee who called Laughlin the last of the real classicists. See A. Bornemann, op.cit., p.6

Francis Walker was again close to the classical tradition, stating that "The best statement known to me of the true scope of economic inquiry is that given by Professor Cairnes."¹⁸⁸ Nevertheless, Walker displayed leanings towards historical and statistical methods, supported bimetallism, and attacked the wage fund theory.¹⁸⁹ His principle work, Political Economy, became a popular college text,¹⁹⁰ while his work on the United States census of 1880 earned him the praise of Alfred Marshall.¹⁹¹ His lack of dogmatism on such as the labour question also earned him the respect of such men as H.S. Foxwell and Washington Gladden.¹⁹²

Walker's theory of distribution emphasised the role of the entrepreneur which he carefully differentiated from that of the capitalist. Capitalists received interest, entrepreneurs profit, and the labourer received the residual after rent, profit, and interest had been deducted.¹⁹³ He also saw that competition sometimes needed regulation, but was afraid that political interference would only lead to trouble.¹⁹⁴ All the same he

188. F.A. Walker, Political Economy, 3rd ed. (London, 1896), p.12. For biographical details see J.P. Munroe, op.cit.; and J.L. Laughlin, "F.A. Walker," op.cit.

189. See F.A. Walker, Bimetallism: A Tract for the Times (Boston, 1894); The Wages Question: A Treatise on Wages and the Wages Class (New York, 1876); and Political Economy, pp.1-32; S. Fine, op.cit., pp.73-79; and A.T. Hadley, op.cit., pp.295-308.

190. J. Dorfman, The Economic Mind in American Civilization, 3: 107.

191. Marshall stated "They are indeed a wonderful work; and must fill all European statisticians with envy." J.P. Munroe, op.cit., p.198.

192. Ibid., p.158. Taussig ranked Walker as "Unquestionably the most prominent and best known of American Writers," see S. Fine, op.cit., p.74.

193. F.A. Walker, Political Economy, pp.187-291; and "The Doctrine of Rent and the Residual Claimant Theory of Wages," Quarterly Journal of Economics 5 (1891): 417-437.

194. J.P. Munroe, op.cit., p.254; and S. Fine, op.cit., p.77. Walker became increasingly conservative as he became older and the reform movements went beyond what he considered desirable. He

resented the dogmatic attitude of his predecessors and contemporaries, stating that:

While Laissez-Faire was asserted in great breadth, in England, the writers for the reviews exaggerating the utterances of the professors of the universities, that doctrine was carefully qualified by some economists and was by none held with such strictness as was given to it in the United States. Here it was not made the test of economic orthodoxy, merely. It was used to decide whether a man was an economist at all.¹⁹⁵

Walker's characterisation of the orthodoxy of his day receives support from the composition of Laughlin's Political Economy Club, which included A.L. Perry, A.L. Chapin, S. Newcomb, W.G. Sumner, C.F. Dunbar, D.A. Wells, and Walker.¹⁹⁶ Although Laughlin attempted to keep the club as catholic as possible and sometimes found Sumner's dogmatism annoying,¹⁹⁷ it quickly gained the reputation of a free trade clique and a centre for the defense of economic orthodoxy.¹⁹⁸ Dorfman's comment that the "dominant economics presented a picture of narrow practicality and what critics called a 'refined scholasticism' backed by all the forces of intellectual and religious conservatism"¹⁹⁹ also has some justification in the composition of this group. Sumner's presence

attacked Henry George, Bellamy, and all socialist ideas, and objected to the formation of national organisations of labour. See J. Dorfman, op.cit., p.107; S. Fine, op.cit., pp.78-79; F.A. Walker, Political Economy, pp.517-524.

195. F.A. Walker, "Recent Progress of Political Economy in the United States," op.cit., pp.243-268.

196. A.W. Coats, "The American Political Economy Club," op.cit., pp.632-633.

197. Laughlin and Newcomb found that Sumner would not discuss the effect of machinery on wages because he thought "that there was nothing to say about it except that if any class of men were not able to adapt themselves to the advance of the age they would get left." A.W. Coats, "The American Political Economy Club," op.cit., pp.628-629; S. Fine, op.cit., p.49.

198. A.W. Coats, "The American Political Economy Club," op.cit., pp.624-627.

199. J. Dorfman, "The Background of Institutional Economics,"

could also only help to link classical liberalism with Spencerian survival of the fittest in the minds and polemics of reformers.²⁰⁰

The Popular Radicals.

Economic orthodoxy came under attack from popular writers such as Henry George, Edward Bellamy, and H.D. Lloyd. Of these men George was closest to economic orthodoxy and he campaigned against monopoly and speculation and was for free trade.²⁰¹ George found the cause of depressions in the behaviour of land speculators who held land idle in expectation of future rent increases. This forced cultivation onto poorer land and reduced the returns to labour and capital. Production in agriculture would slacken and this downturn would be transmitted to other parts of the economy. The only long term cure, according to George, was for the state to appropriate rent through taxation.²⁰²

George attacked Sumner, and, after 1892, Spencer, despite

op.cit., p.13.

200. The fact that there appears to be an easy compatibility between Spencer and Sumner and the ideas of a Laughlin or a Wells should not lead us to believe that Darwinian rhetoric was used by everybody whose interests would thereby be served. Businessmen and the judiciary tended to use constitutional, religious, or classic laissez-faire liberal arguments in their defence, Carnegie being the one major exception. In fact Bannister claims that the specter of a "conservative Darwinism" was almost entirely the creation of reform writers such as Bellamy, Ward, H. George, and H.D. Lloyd. See R.C. Bannister, "The Survival of the Fittest is Our Doctrine: History or Histrionics," op.cit., pp.385-398.

201. For summaries of George's work see E. Teilhac, op.cit., pp.152-174; J. Dorfman, The Economic Mind in American Civilization, 3: 142-149; S. Fine, op.cit., pp.289-295; G.R. Geiger, The Philosophy of Henry George (New York, 1933); J. Dewey, An Appreciation of Henry George (New York, 1929); and D.C. Pedder, Henry George and His Gospel (London, 1908).

202. H. George, Progress and Poverty, 4th ed. (New York, 1883). Although George accepted Ricardian rent theory he was less happy about Malthus and used a theory of value reminiscent of H. Carey. See E. Teilhac, op.cit.; J. Dorfman, The Economic Mind in American Civilization, 3: 144; and H. George, The Science of Political Economy (New York, 1898).

the fact that George owed not a little to Spencer's Social Statics.²⁰³ George accused Spencer of "materialism" and "fatalism" and of betraying the cause of the single tax. Sumner he characterised as believing in a "fierce struggle for existence" and that all attempts at reform were useless.²⁰⁴

In his own work George emphasised the moral dimension, arguing that the "golden rule of morals" and the "golden rule of the science of wealth" must be one and the same.²⁰⁵ The differences between George and the earlier religiously inclined economists lies in the social aspect of his religious concern. He attacked those churches that failed to interest themselves with issues of social justice, and in many respects came close to the position of the Social Gospel movement.²⁰⁶

George's work proved immensely popular and, at least outside the academic world, had considerable influence.²⁰⁷ The Single Tax movement spread to England resulting in close communication between English and American reformers.²⁰⁸

203. The reason for George's attacks on Spencer's later work is to be found in Spencer's abandonment of his early position on the ownership of land. In Social Statics Spencer had argued against private ownership in land. See H. George, Social Problems (Chicago, 1884); and A Perplexed Philosopher (London, 1937).

204. R.C. Bannister, "The Survival of the Fittest: History or Histrionics," op.cit., pp.383-389.

205. H. George, Progress and Poverty, pp.473-474; and S. Fine, op.cit., p.291.

206. H. George, Social Problems, pp.20-21; and G.R. Geiger, op.cit., pp.281-286.

207. By 1905 some two million copies had been printed according to an estimate by his son. See S. Fine, op.cit., p.290. Even J.L. Laughlin who disagreed with George on almost every issue had to admit he had played a great part in arousing interest in economic problems. See J.L. Laughlin, "The Study of Political Economy in the United States," op.cit., p.13.

208. See A. Mann, "British Social Thought and American Reformers of the Progressive Period," Mississippi Valley Historical Review 42 (1955/56): 672-692; J. Dorfman, The Economic Mind in American Civilization, 3: 147-149.

Another movement, that of the National Socialists was started as a result of Edward Bellamy's utopian novel Looking Backward.²⁰⁹ In this book Bellamy looked to the evolution of an efficient and just socialist state. He characterised the contemporary economic system as "predatory" and considered it not simply wasteful but "a system for preventing production."²¹⁰ He argued that depressions were not inevitable but due to "industrial warfare" and could be cured through the nationalisation of industry and economic planning.²¹¹ To Bellamy the principle of competition was simply the application of the survival of the strongest, an attitude F.A. Walker sharply criticised as ignoring the role of competition in the development of man's "intellectual, moral and physical power."²¹² Bellamy also argued that competition resulted in a greater loss of freedom through wars and poverty than was entailed in economic planning.²¹³

As Fine points out "Nationalism was but the realisation of the social teachings of the Gospel" and some twenty-one ministers were affiliated with the Nationalist movement. Indeed the Society of Christian Socialists developed directly out of the Nationalist movement in 1889 to join the many other organisations preaching

209. Edward Bellamy, Looking Backward (New York, 1951). Looking Backward sold approaching a million copies by the early 1890's. However, Nationalism did not survive as an independent movement past 1895 although some of Bellamy's ideas were resuscitated during the New Deal era. See J.H. Franklin, "Edward Bellamy and Nationalism," New England Quarterly 11 (1938): 739-772.

210. E. Bellamy, op.cit., pp.225-241.

211. Ibid., pp.64-65, 217-235. He was, however, opposed to anybody that espoused action involving confrontation. He believed that his utopia could be achieved peacefully within fifty years.

212. R. Hofstadter, Social Darwinism in American Thought, p.148; R.C. Bannister, "The Survival of the Fittest is Our Doctrine: History or Histrionics," op.cit., pp.385-398; and E. Bellamy, op.cit., pp.213-227.

213. E. Bellamy, op.cit., pp.59-62.

the Social Gospel.²¹⁴

These groups contended that the teachings of Christianity were directly opposed to the "selfishness" and "inhumanity" they saw in society and orthodox economic and Spencerian theories.²¹⁵ The Social Gospelers included Washington Gladden, Lyman Abbott, G.D. Herron and W.D.P. Bliss, and lay advocates such as R.T. Ely and J.R. Commons.²¹⁶ Taken as a whole the Social Gospel movement was cautious in its approach to state intervention, concentrating on raising the ethical level of competition and promoting co-operatives or profit-sharing schemes.²¹⁷ Nevertheless, Herron desired the overthrow of the wage system and Bliss was to attempt to found an American Fabian League, published the American Fabian, and edited The Encyclopedia of Social Reform.²¹⁸

Other reformers too, such as H.D. Lloyd, whose work was in the forefront of the Populist anti-monopoly crusade,²¹⁹ took inspiration from English writers. Lloyd admired Ruskin and William

214. S. Fine, op.cit., p.299; and J. Dombrowski, op.cit., pp.14-18, 84-103; and C.H. Hopkins, op.cit.

215. S. Fine, op.cit., p.173; and W. Gladden, Applied Christianity (Boston, 1887); and L. Abbott, Christianity and Social Problems (Boston, 1896).

216. J. Dombrowski, op.cit.; J.R. Everett, Religion in Economics: A Study of John Bates Clark, Richard T. Ely, and Simon N. Patten (New York, 1946); and R.T. Handy, ed., The Social Gospel in America 1870-1920 (New York, 1966).

217. S. Fine, op.cit., p.179.

218. Bliss was a member of the reformist Knights of Labor, and his Encyclopedia was virtually a Who's Who of reformist thinkers. Herron was a member of the basically Marxist Socialist Labor Party, and was dismissed from the Congregationalist Church after being divorced from his wife.

219. See H.D. Lloyd, Wealth Against Commonwealth (New York, 1894); C.M. Destler, op.cit., pp.11-12, 135-161, 212-221; and S. Fine, op.cit., pp.335-346; and also C. Lloyd, Henry Demherst Lloyd, 1847-1903 (New York, 1912).

Morris,²²⁰ and was deeply critical of both Spencerian ideas and classical economics, which he argued broke down in the face of monopoly and combination.²²¹ Lloyd also used moral arguments, contending that industrial problems must be considered from a moral point of view, and action should be based on a consideration of ethical and religious principles, so that a better kind of fittest should survive.²²²

Among labour organisations utopian and reformist attitudes were expressed by the Knights of Labor while more radical socialist and syndicalist ideas were propounded by the Socialist Labor Party, founded in 1877, and the Industrial Workers of the World, founded in 1905. Marxian ideas were spread through the establishment of the First International in New York in 1872, and found fertile ground among German immigrants. Works by Marx and Engels were also read and appreciated by non-Marxian reformers, particularly F. Engels' The Condition of the Working Class in England in 1844.²²³

In opposition to these organisations stood the American Federation of Labor which was based on craft unionism and took a

220. A. Mann, op.cit., pp.677-681; and H.D. Lloyd, Lords of Industry (New York, 1910), p.62, where he quotes Ruskin's condemnation of economists.

221. H.D. Lloyd, Lords of Industry, pp.61-65; and Wealth Against Commonwealth, pp.494-499.

222. S. Fine, op.cit., p.340 and H.D. Lloyd, Wealth Against Commonwealth, p.513. Lloyd saw classical economics as a cover for "fraud and robbery," "irreligious," "unscientific," and cruel.

223. P.M. Sweezy, "The Influence of Marxian Economics on American Thought and Practice," in D.D. Egbert and S. Persons, eds., Socialism and American Life (Princeton, 1952), pp.460-461; M. Hillquit, op.cit., pp.177-192; and P.F. Brissenden, The Industrial Workers of the World (New York, 1919), pp.57-122; C.D. Wright, "A Historical Sketch of the Knights of Labor," Quarterly Journal of Economics 1 (1887): 137-168.

strictly economic attitude, refusing to become involved in party politics.²²⁴ It is also beyond doubt that the great majority of American reformers avoided contact with most radical groups, being clear in their minds that reform should come "from above and not from below," as an extension of the principle of Christian stewardship.²²⁵

The Academic Critics of Economic Orthodoxy.

As mentioned above, academics such as Ward and Giddings were critical of orthodox economics, but the main thrust of their work was in the field of sociology. Within academic economics criticism of the prevailing orthodoxy was to come initially from the so-called "new school" of German trained economists and, slightly later, from Thorstein Veblen. As Veblen and new school writers such as R.T. Ely, H.C. Adams, and S.N. Patten have very considerable importance in the formation of institutionalist thought their work will be dealt with in more detail below, but some general observations are in place here.

The new school writers were heavily influenced by their German training which had brought them into contact with members of the German historical school such as A. Wagner, K. Knies, J. Conrad, E. Engle, and G. Schmoller.²²⁶ The German historical

224. See S. Gompers, "Industrial Relations Commissions Report," American Federationist 22 (1915): 681-682; "Labor and the Eight Hour Day," American Federationist 23 (1915): 565-589; and Seventy Years of Life and Labor (London, 1925); and B. Mandel, "Gompers and Business Unionism," Business History Review 28, (1954): 264-275; W.M. Dick, Labor and Socialism in America: The Gompers Era (New York, 1972), pp.111-133; P. Taft, The American Federation of Labor in the Time of Gompers (New York, 1957); R.H. Harvey, Samuel Gompers, Champion of the Toiling Masses (Stanford, 1935).

225. A. Mann, op.cit., pp.683-685. An example is to found in the American Social Science Association which worked on the basis of the responsibility of the "gifted and educated classes" towards the "weak, witless, and ignorant."

226. J.B. Parrish, op.cit., pp.13-16; J. Herbst, op.cit., p.131;

school displayed an attachment to historical and institutional investigations and is usually regarded as following an historical/comparative method.²²⁷ However, it should be pointed out that different members of the school utilised different interpretations of this method. Some, such as Wagner and Conrad, saw historical research as a supplement to deductive theorising,²²⁸ while others, such as Knies, argued that historical relativity and human purpose made the search for general causal laws futile and that only generalised historical descriptions were possible.²²⁹

Despite these differences the historicists did have a common interest in the course of economic evolution and several developed systems of stages of economic growth. Hildebrand distinguished barter, money, and credit economies, Bucher's stages were domestic, town and national economies, and Schmoller's were village, town, territorial, national, and world economies.²³⁰ These schemes of evolution were not supposed to apply everywhere but only, at the most, to Europe, a point that is in contrast to

J. Myles, op.cit., pp.104-161. See also J. Dorfman, "The Role of the German Historical School in American Economic Thought," op.cit., pp.17-22. German historicism also had an impact in England although it was not as strong as in the United States. See A.W. Coats, "The Historicist Reaction in English Political Economy," Economica 21 (1954): 143-153.

227. The German historical school is often divided into an older and younger groups, the younger group being more concerned with historical and factual investigations, but the classification is far from perfect. See J. Schumpeter, A History of Economic Analysis, pp.800-824.

228. A. Wagner, "Wagner on the Present State of Political Economy," Quarterly Journal of Economics 1 (1887): 113-133; E. Nasse, "The Economic Movement in Germany," Quarterly Journal of Economics 1 (1887): 498-506; C.F. Dunbar, "The Reaction in Political Economy," Quarterly Journal of Economics 1 (1887): 1-27.

229. J. Schumpeter, op.cit., pp.810-812; J.N. Keynes, The Scope and Method of Political Economy (London, 1917), pp.298-321; A. Oncken, "New Tendencies in German Economics," Economic Journal 9 (1899): 463. Schmoller started with a similar position but later changed his approach. J. Herbst, op.cit., pp.132-138.

230. G. Schmoller, The Mercantile System, 1895, (New York, 1931);

the position taken by the evolutionary sociologists.²³¹ The historicists also argued against the monism of many evolutionists, claiming that all phenomena are influenced by a multiplicity of causes. This led them to emphasise the interconnectedness of social, legal, ethical, and economic factors and to criticise the "egotistic" and "selfish" view of man which they saw contained in classical economics.²³²

The historical school were also concerned with problems of social reform. They rejected laissez-faire and looked to positive state action. They argued that socio-economic problems were also ethical in nature, and that the state should promote research and act as a "moral unit" in the reform of social conditions. To this end they engaged in detailed studies of public finance, agriculture, commerce, manufacturing industry, and transport, and organised the Verein Fur Sozialpolitik to promote their ideas.²³³

American students returning from Germany brought these ideas with them, although they often combined them with native

C. Bucher, Industrial Evolution (New York, 1901); B.F. Hoselitz, "Theories of Stages of Economic Growth," op.cit., pp.193-224.

231. B.F. Hoselitz, op.cit., pp.143-224.

232. See W. Abraham and H. Weisgast, The Economics of Gustav Schmoller (New York, 1942); W.B. Cherin, "The German Historical School," (Ph.D. dissertation, University of California, 1933); R.T. Ely, "The Past and Present of Political Economy," Johns Hopkins Studies in Historical and Political Science 2 (1884): 43-64; E.V. Philippovich, "The Infusion of Socio-Political Ideas into the Literature of German Economics," American Journal of Sociology 18 (1912): 145-199.

233. J. Herbst, op.cit., pp.142-146; E.V. Philippovich, op.cit., pp.187-199; J.H. Grey, "The German Economic Association," Annals of the American Academy of Political and Social Science 1 (1891): 515-520; E.V. Philippovich, "The Verein Fur Sozialpolitik," Quarterly Journal of Economics 5 (1891): 220-237. See also R.T. Ely, "The Past and Present of Political Economy," op.cit., pp.54-57.

influences.²³⁴ There were very close links between the new school, the social gospel movement,²³⁵ and evolutionary sociologists such as Ward and Giddings. New school members were instrumental in the formation of the American Economics Association in 1885, which, when first founded, had a platform which emphasised the importance of historical and statistical studies and the potential role of the state in ensuring "human progress." Initially the A.E.A. included Ely, Adams, Patten, other German influenced scholars, William James, L. Ward, F.H. Giddings, and social gossellers such as W. Gladden and L. Abbott.²³⁶

234. The result was to create an American version of the Methodenstreit. See H.C. Adams et al., Science Economic Discussion (New York, 1886); R.T. Ely, "The Past and Present in Political Economy, op.cit."; R.T. Ely, "Political Economy in America," North American Review 144 (1887): 113-119; C.F. Dunbar, "The Reaction in Political Economy," op.cit., pp.1-27; E.C. Lunt, The Present Condition of Economic Science and the Demand for a Radical Change in its Methods and Aims (New York, 1888); W.W. Folwell, "The New Economics," American Economic Association Publications 8 (1893): 19-40; A. Blue, "The Historical Method in Economics," Proceedings of the American Association for the Advancement of Science, 47 (1898): 493-518.

235. The Social Christian bias among "new school" members is quite remarkable. See R.T. Ely, Ground Under our Feet (New York, 1935), pp.73-110; "Progressivism True and False," Review of Reviews 51 (1915): 209-211; "Ethics and Economics" in H.C. Adams et al., op.cit., pp.44-56; Social Aspects of Christianity and Other Essays (New York, 1889); S. Fine, "R.T. Ely, Forerunner of Progressivism, 1880-1901," Mississippi Valley Historical Review 37 (1950/51): 599-624; H.C. Adams, "An Interpretation of the Social Movements of Our Time," International Journal of Ethics 2 (1891): 32-50; R. Mayo-Smith, "Social Problems: How They Arise, What They Are and How Modern Political Economy Views Them," Christian Thought, 5th ser. (1888): 417-429; J.B. Clark, "The Nature and Progress of True Socialism," The New Englander 151 (1879): 565-581; and "Christianity and Modern Economics," The New Englander and Yale Review 47 (1887): 50-59; J.R. Everett, op.cit., passim.

236. R.T. Ely, Ground Under our Feet, pp.130-138; R.T. Ely, "The American Economic Association 1885-1909," American Economic Association Publications, 3rd ser. 11 (1910): 47-94; R.T. Ely, "Report on the Organization of the American Economic Association," American Economic Association Publications, 1st ser. 1 (1887): 5-46.

Of course not all German trained economists turned to new school ideas. Some, such as A.T. Hadley, and F.W. Taussig remained relatively unimpressed and became members of Laughlin's Political Economy Club.²³⁷ There were some bitter disputes between the two groups, but by 1888 the new school members felt secure enough to drop the A.E.A. platform and seek rapprochement.²³⁸ Despite this confidence, the new school began to decline by the

237. Both Taussig and Hadley thought that to become involved with sociological questions would be to weaken the scientific advance of the subject. Both Hadley and Taussig argued that the prevailing tendencies towards government intervention were too great, and distinguished between pure and applied economics, pointing out that an assumption of the worth of government intervention is unsupportable. Hadley went furthest arguing that "the danger of believing economic laws can be interfered with by human effort is ten times greater than the danger of an extreme belief in laissez-faire." Hadley worked on the assumption of fixed laws. According to Hadley "men are accustomed to rigid laws," therefore "not to believe in the rigidity of economic laws leads to recklessness" and it is "better to be fatalistic." Taussig was more moderate, even reprinting Ingram's article "Political Economy" from the Encyclopedia Britannica of 1885. Both Taussig and Hadley were, however, a great deal more eclectic than most other members of Laughlin's Political Economy Club. Hadley was deeply critical of Sumner, and Dorfman assigns them an important role in reconciling the divergent tendencies in American economics at the time. Hadley's Economics is particularly important in this respect as it became a popular college text, replacing that by F.A. Walker. See J. Dorfman, The Economic Mind in American Civilization, 3: 258-259, A.T. Hadley, Economics (New York, 1896); the debate in H.C. Adams; et al., Science Economic Discussion; and J. Myles, op.cit., pp.167-168.

238. See J. Dorfman, "The Seligman Correspondence," Political Science Quarterly 56 (1941): 107-124, 270-286; R.T. Ely, "Report of the Proceedings at the Third Annual Meeting," American Economic Association Publications, 1st ser. 4 (1889): 314; and A.W. Coats, "The First Two Decades of the American Economic Association," American Economic Review 50 (1960): 555-574; J.P. Munroe, op.cit., p.329. F.A. Walker was president of the A.E.A. from 1885-1892 when he was replaced by C.F. Dunbar, as another gesture to the "old school." Taussig who had resisted joining the A.E.A. finally joined in 1887, before the platform had been dropped as a show of support for Ely after Ely's work had been viciously attacked by S. Newcomb. On the other hand Laughlin did not join the A.E.A. until 1904. See J. Myles, op.cit., pp.182-187.

1890's, very largely due to the arrival and spread of marginalist doctrine.²³⁹ New school ideas did not, however, die out completely and the work of Ely, Adams, and Patten had an influence on later writers.

As the new school began to decline criticism of orthodox economics, including marginalism, came from Thorstein Veblen. Veblen drew on many contemporary sources and was familiar with the work of Spencer, Ward, Giddings, Morgan, the historical and new school writers, Marx, Bellamy, and John Rae.²⁴⁰ Veblen's work represents the first comprehensive effort to import evolutionary ideas into economics. Institutionalism was an outgrowth of the ideas of Veblen, new school writers, particularly

239. C.D.W. Goodwin, "Marginalism Moves to the New World" in R.D.C. Black et al., The Marginal Revolution in Economics (Durham, N.C., 1973), pp.285-304; R.S. Howey, The Rise of the Marginal Utility School 1870-1889 (Lawrence, Kansas, 1960), pp.110-117; and J. Dorfman, The Economic Mind in American Civilization, 3: 188-205. Marginal utility theory only became widely used in America with the arrival of translations of the works of the Austrians and after J.B. Clark's, The Distribution of Wealth. The lack of contact between American and English academic writers could partly explain this, but others have suggested the retarded acceptance of marginalist ideas in the United States to be due to the close links between economics and the clerical tradition which, as we have seen, did not come to an end until the 1870's. See E. Kauder, "The Retarded Acceptance of the Marginal Utility Theory," Quarterly Journal of Economics 63 (1953): 564-75; and A History of Marginal Utility Theory (Princeton, 1965). Dissent is expressed by J.P. Henderson, "The Retarded Acceptance of the Marginal Utility Theory: Comment," Quarterly Journal of Economics 69 (1955): 465-73; see also A.W. Coats, "Alfred Marshall and Richard T. Ely: Some Unpublished Letters," Economica 28 (1961): 192. There was also a reaction against the more reform minded writers, some of whom were dismissed from their posts. See J. Dorfman, "The Background of Institutional Economics," op.cit., pp.34-35; J. Myles, op.cit., pp.192-195; R. Hofstadter and W.P. Metzger, op.cit., pp.426-427.

240. See J. Dorfman, "The Source and Impact of Veblen," in D. Dowd, ed., Thorstein Veblen: A Critical Reappraisal (New York, 1958), pp.1-12.

Ely, Adams, and Patten, and the pragmatism of John Dewey.²⁴¹

241. See below chapters 3, 4, and 5. Institutionalism was not simply a result of the impact of the German historical school, although some writers have claimed that this was the case, particularly L. Robbins, op.cit., p.83. Robbins claimed in this book that "the only difference between institutionalism and Historicism is that Historicism is much more interesting." Robbins has, however, changed his opinion since Seckler's work. See D. Seckler, op.cit., foreword, p.ix. Other writers have also argued that institutionalism stemmed from historicism. See T. Suranyi-Unger, Economics in the Twentieth Century (New York, 1932), p.40; E. Heiman, History of Economic Doctrines (Oxford, 1945), p.185; L.H. Haney, History of Economic Thought, pp.750-751; F.W. Taussig, "Fiftieth Anniversary Meeting," American Economic Review 26, supp. (1936): 324. Ely has also claimed that he and men such as Adams and James were the first institutionalists. See R.T. Ely, "Round Table Conference on Institutional Economics," op.cit., pp.114-116. The influence of new school writers on institutionalists is most obvious in the case of J.R. Commons whose work owes a great deal to R.T. Ely. See below chapters 3 and 7.

CHAPTER 3

THE NEW SCHOOL, R.T. ELY H.C. ADAMS AND S.N. PATTEN

Ely, Adams, and Patten are perhaps the best known members of the "new school" of German influenced scholars. Ely was a considerable propagandist and populariser and had a great deal to do with the survival of new school ideas after the arrival of marginalism.¹ Adams was a more cautious writer whose influence was more limited than Ely's, but he left a lasting impression on many of those who were his colleagues and pupils.² Patten was initially heavily influenced by his German experience, but soon came to absorb a wide range of other influences. Patten particularly admired J.S. Mill and the other utilitarians, and was familiar with the writings of J.B. Clark, the Austrian school, Spencer, Ward

1. A.W. Coats, "R.T. Ely," International Encyclopedia of the Social Sciences (New York, 1968), 5: 33-35; and B.G. Rader, The Academic Mind and Reform: The Influence of Richard T. Ely in American Life (Kentucky, 1966), pp.1-52.

2. J. Dorfman, "Henry Carter Adams, the Harmonizer of Liberty and Reform," introductory essay to H.C. Adams, Two Essays (New York, 1954); J.H. Hollander, "Henry Carter Adams," in Palgrave's Dictionary of Political Economy (London, 1925), pp.799-800; E.A.R. Seligman, "H.C. Adams, Obituary," Economic Journal 32 (1922): 267-272; J.H. Hollander et al. "Memorial to Former President Henry C. Adams," American Economic Review 12 (1922): 401-416; S.L. Bigelow, I.C. Sharfman, and E.M. Wenley, "Henry Carter Adams," Journal of Political Economy 30 (1922): 201-211.

and Giddings.³ While Ely looked back to the nationalist school for support, and in order to claim that the new school was in an older American tradition, Patten was much more deeply influenced by List and Carey.⁴ All three writers attempted to weld their ethical ideals into their economic theories and were closely allied with the social gospel and other reform movements.⁵

The new school had considerable importance in the formation of institutionalist thought and provides a link between German historicism and institutionalism. This is not to say that institutionalism is simply an Americanised version of historicism, as other influences also have importance, but the new school influence on later writers such as Walton Hamilton, J.R. Commons, and R.G. Tugwell cannot be ignored.⁶

I R.T. Ely.

Ely never developed what could be called a complete system of thought. His work, besides often being propagandist, consisted principally of lengthy monographs on particular subjects, and textbooks, which although often achieving massive circulations, failed to integrate fully all his ideas.⁷ Nevertheless, Ely's

3. J.L. Boswell, The Economics of Simon Nelson Patten (Philadelphia, 1933), pp.34-40; R.G. Tugwell, "The Life and Work of Simon Nelson Patten," Journal of Political Economy 31 (1923): 153-208; S.N. Patten, The Reconstruction of Economic Theory.

4. R.T. Ely, Ground Under Our Feet, pp.130-131; A.W. Green, op.cit., p.177.

5. J.R. Everett, op.cit., pp.99-144; D.W. Noble, The Paradox of Progressive Thought (Minneapolis, 1958).

6. A.W. Coats, "R.T. Ely," op.cit., p.34; J. Dorfman, "The Background of Institutional Economics," op.cit., p.30; J. Dorfman, The Economic Mind in American Civilization, 3: 161-173, 276-293, and 5: 401-438; D.M. Fox, The Discovery of Abundance (Ithaca, 1967), pp.160-171. A. Gruchy, Modern Economic Thought, p.408.

7. A.W. Coats, "R.T. Ely," op.cit., p.34. Later versions of Ely's Outlines sold 350,000 copies.

work displays a level of consistency that easily allows one to discover his overall views on the workings of the economic system, and the nature, role, and scope, of economic theory.

Method and Scope.

Throughout his professional life Ely was a champion of a basically inductive methodology. Ely's version of this method was undoubtedly extremely crude, usually summed up in the phrase "look and see."⁸ In this Ely was quite clearly under the influence of the German historical school. Speaking of the insufficiency of deduction Ely states:

We must recognise that deduction is in a sense a dangerous method. Granted premises, conclusions will follow, and there is a likelihood that men will choose premises even unconsciously which will lead to the conclusions desired by them...So many premises are possible, and so many combinations of premises, that deduction is apt to mislead. When used conclusions should always be carefully tested by actual experience, and we must be ready not merely to test conclusions but to draw conclusions from facts even in cases suitable for deduction, because human passion has such play in deductive processes.⁹

Here it is quite clear that Ely is arguing that induction is more apt to lead to objective assessments than the deductive method, but this was not his only criticism. Ely's emphasis on evolutionism and historical relativity also led him to doubt the value of a priori theorising on the basis of an assumed and static institutional framework. Ely argued that investigations of the institutional framework and the directions in which it was moving

8. R.T. Ely, Ground Under Our Feet, p.154; A.W. Coats, "R.T. Ely," op.cit., p.34; and A.W. Coats, "Methodological Controversy as an Approach to American Economics," (Ph.D.diss., Johns Hopkins University, Baltimore, 1953), pp.30-47.

9. R.T. Ely, Introduction to Political Economy (New York, 1889), pp.120-121.

were necessary, and he praised the comparative method of arriving at historical generalisations utilised by the German historicists.¹⁰

On the other hand, Ely did not abandon deductive techniques entirely. He took the view that "deduction is and should be used, and especially for certain classes of phenomena where other methods fail,"¹¹ and was not adverse to using the marginal utility theory of valuation.¹² Coats has claimed that Ely's methodological position was, in fact, much closer to the classical economist's than Ely himself realised,¹³ but it must be remembered that Ely's views were in contrast to the partisan, strictly laissez-faire, and highly deductive American orthodox tradition of the time. It was this American tradition that was Ely's main target.

On the matter of scope, Ely rejected the individualistic view of man, and maintained that man could only be studied within his social context.¹⁴ Economic life could not, therefore, be separated from other social phenomena, and economics, for Ely, was "a part of sociology" and should deal with all "branches of

10. Ibid., p.119; R.T. Ely, Studies in the Evolution of Industrial Society, 1903 (Port Washington, 1971), p.13.

11. R.T. Ely, Introduction to Political Economy, p.120; see also R.T. Ely, "The Past and Present of Political Economy," op.cit., pp.7-9.

12. R.T. Ely, Outlines of Economics (London, 1904), pp.118-137.

13. A.W. Coats, "Methodological Controversy," pp.45-48; B.G. Rader, op.cit., pp.28-53. Rader notes that some of Ely's students became tired with his incessant criticism of the classical economists. Rader also sees Ely's characterisation of classical economics as little more than a "straw man."

14. R.T. Ely, Outlines of Economics, pp.72-83; R.T. Ely, "The Past and Present of Political Economy," op.cit., pp.49-52, and Introduction to Political Economy, pp.13-27.

life" in so far as they affect "wealth getting and wealth using activity."¹⁵ This included ethical and legal factors. Ely rejected the hedonistic view of man, but came to accept marginal utility theory as he felt it was quite compatible with motivations other than self-interest.¹⁶

Ely put considerable emphasis on the role of ethics in directing economic matters, but more than this he considered that economics should be concerned not only with what is but also with what ought to be. Here Ely retreated from his relativism and quite overtly set up an ethical goal, a "determination to make all departments of social life conform to ethical principles."¹⁷

According to Ely, as evolution could be directed through human will, sociology, ethics, and political and economic reformism are brought into the scope of economics. He classed himself as belonging to the "ethical school of economists" who aimed

to direct in a certain definite manner, so far as may be, this economic, social growth of mankind...
~~/to achieve/~~ the most perfect development of all human faculties in each individual, which can be attained.¹⁸

To attain this end Ely argues that one must

apply ethical principles to economic facts and economic institutions, and test their value by that standard. Political Economy is thus brought into harmony with the great religious, political, and social movements which characterise this age.¹⁹

15. R.T. Ely, Outlines of Economics, p.83; and Introduction to Political Economy, pp.13-14.

16. Ely's view that marginal utility theory was free from hedonism was not shared by Veblen, and there was some debate over the issue. See H.W. Stuart, "The Hedonistic Interpretation of Subjective Value," Journal of Political Economy 4 (1895): 66-80; A.W. Coats, "Methodological Controversy," pp.194-247.

17. R.T. Ely, "Ethics and Economics," in H.C. Adams et al., Science Economic Discussion, pp.44-56.

18. Ibid., pp.49-50; see also R.T. Ely, Introduction to Political Economy, pp.67-68.

19. R.T. Ely, "Ethics and Economics," op.cit., p.53. See also

Ely's idea of economics was hence a combination of two things. First, a desire to reject absolutist and natural law formulations, and to include the idea of evolution and historical relativism. Second, a desire to combine economics with ethics; a view that evolution could be directed, that political economy was relevant to that direction, and that economics should be so constructed so as to direct evolution into certain ethically acceptable channels. That Ely saw no contradiction between these two roles for economics, one resting on a relativistic and the other on an absolute notion of truth, is quite clear. For Ely truth was relative only up to a point. His method, which took account of historical change, could, according to Ely, provide another, correct, "progressive history." As Noble puts it:

Proudly he cut the connection of science from anything like a direct religious control of the facts men knew. Just as proudly he brought religion back into the scientific world, a religion controlled and upheld by the concrete and unarguable facts of science.²⁰

To Ely "the true economist is a guide who always keeps in advance,

Ground Under Our Feet, p.91; and "Political Economy in America," North American Review 144 (1887): 115.

20. D.W. Noble, op.cit., p.166; an interesting example of this is to be found in the introduction by Ely to the "History of Co-operation In the United States," Johns Hopkins University Studies in Historical and Political Science 6 (1888): 5-9. Here Ely condemns economists for "conceit," dogmatism, and a lack of observation and induction in their work. After this attack on the lack of a "scientific" approach among most economists Ely states in conclusion that "Christ uttered a scientific truth, enforced by every careful and intelligent observer of economic phenomena, when he says 'Seek ye first the kingdom of God and His righteousness, and all these things economic goods shall be added unto you'". See also R.T. Ely, The Social Aspects of Christianity (New York, 1889).

who marks out new paths of social progress."²¹

The Social and Economic Order.

Ely's views on the evolution of society were an amalgam of Spencerian ideas and those of the German historical school. Ely saw in the process of evolution a "growing complexity and coherence in society," a statement reminiscent of Spencer,²² but he also made use of a theory of stages similar to those developed by the historicists.

Ely's stages consisted of a hunting and fishing stage, a pastoral stage, an agricultural stage, a handicraft stage, and an industrial stage.²³ Ely said little about the forces that provided the dynamic for this process up to the industrial stage, and made little attempt to provide adequate explanations of the way in which one stage evolved into the next. Ely concentrated on the industrial stage and the rise and decline of competition within it. Only in the case of the industrial stage did Ely attempt to identify the dynamic forces at work.

Industrialisation and competition under a system of individual free contract resulted, in Ely's view, in a host of social and economic problems. The system of free individual contract was not a system of equality of opportunity, and was compatible with

21. R.T. Ely, "Political Economy in America," op.cit., p.115.

22. R.T. Ely, Studies in the Evolution of Industrial Society, p.9.

23. Ibid., pp.28-65. Ely compared his system of stages to those of List, Bucher, Hidebrand, and Giddings. Indeed Ely seems to have missed the important differences between the historicists' systems of stages and those provided by the evolutionary sociologists. The fact that Giddings' system was monocausal, unilinear, and general, while those of the historicists were pluralistic and designed to apply only to Europe seems to have been ignored by Ely.

considerable inequalities in bargaining power and wealth. Ely did not argue against inequalities based on genuine differences between people, but only against monopoly power or barriers to equality of opportunity. Likewise, he did not argue that competition was wholly bad, only that certain aspects of the competitive process had undesirable results.²⁴ Ely's major concerns were the problem of monopoly, the distribution of income and wealth, what he called the "plane of competition," and the waste of economic resources.

Monopoly, in Ely's scheme, resulted in distortions in the distribution of income, hardship to the poor, and a concentration of power that was "undemocratic" and "intolerable in a free country."²⁵ He distinguished between "social," "natural," and "artificial" monopolies, social monopolies being those established in the public interest such as patents, copyrights, and trademarks.²⁶ Natural monopolies were the result of such things as limited supply, increasing returns to scale or other returns to combination, and secrecy. Ely included railroads, telegraph, water, gas, and electricity companies in this category.²⁷ Artificial monopolies he defined as those that grew as the result of a

24. R.T. Ely, "Fundamental Beliefs in my Social Philosophy," The Forum 18 (1894/95): 178-183. See also R.T. Ely, "Progressivism True and False," Review of Reviews 51 (1915): 209-211; R.T. Ely, "Competition, Its Nature, Its Permanency and Its Beneficence," American Economic Association Publications, 3rd ser. 2 (1901): 55-70; B.G. Rader, op.cit., pp.83-105. Ely claimed to be looking for the "Golden Mean" between socialism and unregulated capitalism.

25. R.T. Ely, Outlines of Economics, pp.295-296.

26. R.T. Ely, Monopolies and Trusts (New York, 1900), pp.42-55.

27. Ibid., pp.42-75.

special relationship with natural monopolies, for instance the special railroad rates given to Standard Oil.²⁸ Ely's concern was not with large scale production as such, but only with the power of natural monopolies and the privileges given to artificial monopolies.²⁹

The distribution of income and wealth was, for Ely, not simply the result of the market demand and supply for factors, but also a matter of relative bargaining power, the laws, rights, and duties relating to property and contract, and the existence or otherwise of legally recognised vested interests.³⁰ Monopoly power, large differences in wealth, and the structure of rights all lead to differences in bargaining power, and Ely saw individual free contract as little more than the medium through which "existing inequalities and forces" express themselves.³¹

The bargaining power of workers and the distribution of income was linked in Ely's work to the existence of crises and unemployment. Ely did not take his treatment of unemployment very far, but he tended toward an underconsumptionist explanation, although often supplemented by other explanations concerning barriers to free exchange or monetary disturbances.³²

28. R.T. Ely, Socialism and Social Reform (London, 1894), pp. 293-294.

29. R.T. Ely, Monopolies and Trusts, pp.141-213; R.T. Ely, "The Nature and Significance of Monopolies and Trusts," International Journal of Ethics 10 (1900): 282-293. See also S. Fine, "R.T. Ely, Forerunner of Progressivism," op.cit., p.613.

30. R.T. Ely, Studies in the Evolution of Industrial Society, pp.74-85, 398-409; R.T. Ely, Property and Contract, 2 vols. (London, 1914) 1: 9-35, and 2: 755-790.

31. R.T. Ely, Studies in the Evolution of Industrial Society, pp.398-409.

32. R.T. Ely, Introduction to Political Economy, pp.278-279; R.T. Ely, Outlines of Economics, pp.230-245. In later editions of

Ely also argued that competition may work to lower the ethical plane of competition, by forcing all firms to cut costs in order to compete with the firm with the lowest standards in such things as working conditions, length of the work day, and so on.³³ In addition Ely was concerned with the "wastes" of competition in terms of the production of luxury goods rather than necessities, and the over exploitation of natural resources.³⁴

Ely did not, however, see the social and economic order as static but in a process of change. Ely argued that as societies grew in complexity and men had closer and "more vital" contact with each other they would become more "social, conscious, and ethical" in their behaviour.³⁵ Such characteristics as love, generosity, nobility of character, self-sacrifice, and brotherhood, which were the "best and truest" aspects of human nature, would gradually come to the fore.³⁶ Collective action would replace individual action, government would adopt broader responsibilities, and the legal framework would gradually change to bring about a greater recognition of the social side of property.³⁷

the Outlines the treatment of crises was expanded but the ideas were very largely those of A.A. Young who, along with T.S. Adams, and M.O. Lorenz, undertook the revision and expansion of the text.

33. R.T. Ely, Socialism and Social Reform, pp.317-322; R.T. Ely, "Fundamental Beliefs in my Social Philosophy," op.cit., p.180; R.T. Ely, Outlines of Economics, rev. ed. (New York, 1909), p.467; R.T. Ely, Introduction to Political Economy, pp.83-84.

34. R.T. Ely, Introduction to Political Economy, pp.272-277; R.T. Ely, Studies in the Evolution of Industrial Society, pp.90-93; R.T. Ely, Outlines of Economics, rev. ed., p.469.

35. R.T. Ely, Studies in the Evolution of Industrial Society, p. 90; R.T. Ely, Outlines of Economics, p.253.

36. R.T. Ely, Introduction to Political Economy, pp.67-68; B.G. Rader, op.cit., pp.48-52.

37. R.T. Ely, "Progressivism True and False," op.cit., p.209; R.T. Ely, Property and Contract, 1: 51-66; R.T. Ely, Studies in the Evolution of Industrial Society, pp.87-89.

Ely argued that all of these things were taking place and that within the "present phase of industrial evolution" cooperation and collectivism would grow, greater foresight would be developed, and competition would mount to higher and higher ethical levels, leaving behind the "contests for bare subsistence to engage in contests for noble progress of the mind, and for opportunities of social service."³⁸

Although this gives the impression that Ely felt that the evolutionary process need only be left alone for progress to occur, this is not the case. For Ely, "the economic life of man to some considerable extent is the product of human will."³⁹ The optimistic outlook of the evolutionary process was, to Ely, what was possible provided men acted to create such a world. As Noble puts it:

Those who fought on the side of the future were not destined to lose. Yet Ely warned that it rested with his generation to see whether the forces of social union would triumph over the forces of social disintegration. The dignity of man rested on the fact that he, personally, was responsible for the fruition of this process of evolution. Science revealed the outlines of progress, but everything depended on whether man willed and created a world that would fulfill this destiny.⁴⁰

Ely's goal was the "perfect development of all human faculties in each individual," which in practical terms came down to a regime of widely diffused wealth and equal opportunity.⁴¹

38. R.T. Ely, Studies in the Evolution of Industrial Society, pp.90-93, 128-143; R.T. Ely, "Competition, Its Nature, Its Permanence, and Its Beneficience," op.cit., pp.55-70.

39. R.T. Ely, "Ethics and Economics," op.cit., p.48.

40. D.W. Noble, op.cit., pp.169-170.

41. R.T. Ely, "Fundamental Beliefs in my Social Philosophy," op.cit., pp.178-183.

Ely's Reform Proposals.

Ely's reform proposals are directly related to his normative goal and his analysis of monopoly, distribution, and the plane of competition. The major tools in the programme of "self-conscious social action" were the government, labour unions, the legal system, and the church.

Trade unions could act to equalise bargaining power and raise "the standard of life" for workmen. Ely had no doubt that unions could improve both wage and non-wage conditions and he also looked to unions to work against payments in kind, the activities of company stores, non-transferable insurance schemes, poor work conditions, child and female labour, over-long working hours, and uncontrolled immigration. Ely argued further that unions had great educational value and could awaken in workmen a respect and regard for others and instill "prudence in marriage."⁴²

Ely felt that through "regulated association" came freedom and individuality.

The era of individual bargaining has passed away... and is very nearly a thing of the past in all large scale production. We must adjust ourselves to collective bargains between organised labor on the one hand and organised capital on the other. Not suppression of organisation, but regulation of organisation must be our watchword.⁴³

Collective bargaining supplemented by arbitration and conciliation was Ely's formula for industrial peace.⁴⁴

42. R.T. Ely, Outlines of Economics, pp.180-198; R.T. Ely, The Labor Movement in America (London, 1890), pp.92-140; B.G. Rader, op.cit., pp.76-82. As Rader notes Ely credited unions with "almost every conceivable good."

43. R.T. Ely, Studies in the Evolution of Industrial Society, pp.300-301.

44. R.T. Ely, "A Program for Labor Reform," Century, n.s. 17 (1890): 938-951; R.T. Ely, "Labor Organizations," Christian Advocate 66 (1891):602; R.T. Ely, Introduction to Political Economy, p.226.

Government was also given a large role by Ely, principally in the control of monopolies and in raising the ethical level of competition. Ely argued that natural monopolies should be under some kind of public control. At first Ely favoured public ownership, but later came to support the use of regulatory commissions.⁴⁵ The present arrangements for social monopolies he considered adequate on the whole, while artificial monopolies could not exist if natural monopolies were controlled. Ely opposed the breaking up of large firms simply because they were large. He argued that action should be taken not against large scale, provided it was the result of economic forces, but only against any attendant abuses.⁴⁶ The regulation of more competitive industries Ely left largely to the market, although he did suggest that corporations be required to disclose more information, felt that those who signed a company's prospectus should have a responsibility to the investors, and argued for some restriction of unlimited liability. Bureaus of corporations would enforce these regulations.⁴⁷

45. R.T. Ely, Socialism and Social Reform, pp.292-293; and Studies in the Evolution of Industrial Society, pp.226-237. For Ely's later position see R.T. Ely, "Government in Business and the General Welfare," Review of Reviews 84 (1931): 44-47; and B.G. Rader, op.cit. Ely in his early work saw huge benefits coming from state ownership. For details of this see R.T. Ely, "The Advantages of Public Ownership and Management of Natural Monopolies," Cosmopolitan 30 (1901): 557-60; R.T. Ely, "Natural Monopolies and the Workingman. A Program of Social Reform," North American Review 158 (1894): 194-303; and S. Fine, "R.T. Ely, Forerunner of Progressivism," op.cit., pp.613-614.

46. R.T. Ely, Monopolies and Trusts, pp.42-55, 141-213; and R.T. Ely, "The Nature and Significance of Monopolies and Trusts," International Journal of Ethics 10 (1900): 282-283; see also S. Fine, "R.T. Ely, Forerunner of Progressivism," op.cit., p.613. Ely also wished to see the removal of tariffs and the modification of patent laws where these were tending to promote monopoly.

47. R.T. Ely, Monopolies and Trusts, pp.264-271; R.T. Ely, "The Future of Corporations," Harpers Monthly Magazine 75 (1887): 265-266.

Ely desired legislation to establish a higher ethical plane of competition, including laws to protect labour, health and safety regulations, controls over child labour, compensation for injury in the work place, the eight hour day, and consumer protection, particularly pure food laws. On top of this Ely sought to establish social insurance and pension schemes, inheritance and income taxes, taxes on monopolies, extensions to public education, slum clearance, and public housing.⁴⁸

Ely was also concerned with unemployment and the use of natural resources. He advocated the setting up of employment agencies, public works programmes during depressions, and at one stage even suggested that the government guarantee a right to a job. To ease the burden of technological unemployment Ely argued that workers could be given a vested right in their skill and that the government could pay compensation to those made redundant, thereby spreading the costs of change.⁴⁹ Concerning resource use Ely worked toward establishing an "American land policy" and controls over the use of forest and mineral resources.⁵⁰

This ambitious reform programme was to be rounded off by a series of political reforms designed to make government and the civil service more responsive to public will, more efficient,

48. R.T. Ely, Socialism and Social Reform, pp.317-333; R.T. Ely, "Fundamental Beliefs in My Social Philosophy," op.cit., p.180; R.T. Ely, "The Next Things in Social Reform," Christian Union 43 (1891): 531-532; R.T. Ely, Outlines of Economics, pp.348-367; R.T. Ely, Natural Monopolies and Social Taxation (Boston, 1889); R.T. Ely, Problems of Today (New York, 1890), pp.231-245; R.T. Ely, "The Improvement of Municipal Government," Christian Union 42 (1890): 460-461; R.T. Ely, The Coming City (New York, 1902).

49. R.T. Ely, Socialism and Social Reform, pp.328-331; R.T. Ely, Hard Times (New York, 1931); R.T. Ely, "The Next Things in Social Reform," op.cit., pp.531-532; R.T. Ely, Property and Contract, 2: 755-774.

50. R.T. Ely, Introduction to Political Economy, pp.90-93;

and less corrupt,⁵¹ and crowned by a programme of education designed to "prepare...youth for independent economic existence."⁵²

As should be obvious from the above Ely's version of progressivism hardly deserved the charges of socialism that were often levelled at him. Indeed Ely went to considerable lengths to demonstrate his antipathy to socialist ideals.⁵³ Ely was first and foremost a Christian reformer, who was most concerned not to abandon institutions which served their functions. Ely argued:

It is the present writers belief...that our social order has great vitality, that it is sound in its most essential elements, that a widely diffused ownership of wealth is practicable, and that the work which is required is improvement along existing lines...We are shaping society in order to accomplish ends which we have in view, and we do not change fundamental institutions which are even tolerably

R.T. Ely, et al., The Foundations of National Prosperity; Studies in the Conservation of Permanent Natural Resources (New York, 1918), pp. 15-16; R.T. Ely, Land Economics (Madison, 1928); B.G. Rader, op.cit., pp.192-222. Ely did much to forward the study of land and resource economics.

51. Ely became less enthusiastic as he became older. See R.T. Ely, Socialism and Social Reform, pp.344-349; and R.T. Ely, "Progressivism True and False," op.cit., p.210.

52. R.T. Ely, Socialism and Social Reform, pp.324-326; and R.T. Ely, "Progressivism True and False," op.cit., p.211.

53. The attacks on Ely included articles by Simon Newcomb, and O.E. Wells. See S. Newcomb, "Dr. Ely on the Labor Movement," The Nation 43 (1886): 293-294; O.E. Wells, "The College Anarchist," letter to The Nation 59 (1894): 27. It was principally Ely's early work on the labour movement and his support of the Knights of Labor that led to these attacks. Ely was later to become more conservative, supporting Gompers' non-political unionism. See R.T. Ely, Ground Under Our Feet, pp.70-71; Ely's reply to his critics is contained in R.T. Ely, "Fundamental Beliefs in My Social Philosophy," op.cit.; see also The Ely Investigation. Communications of Superintendent Wells to the Investigating Committee (1894); M. Curti and V. Carstensen, The University of Wisconsin 1848-1925 (Madison, 1949), 1: 508-527. Coats considers that Ely had rather asked for trouble in some of his writings. Nevertheless he was exonerated from the charges made by Wells, who was then Wisconsin's Superintendent of Public Education. See A.W. Coats, "R.T. Ely," op.cit. For an analysis of Ely's gradual movement towards more conservative positions see B.G. Rader, op.cit., pp.130-158. Rader

satisfactory.⁵⁴

Ely argued that socialism was both "needless" and "hopeless" as the existing "socio-economic order" possessed both strength and purpose.⁵⁵

In conclusion, Ely saw this "socio-economic order" lying on a foundation which consisted essentially of contract and property rights. The operation of this order, however, also depended on "forces of the second rank:" custom, competition, monopoly, authority, and benevolence.⁵⁶ The operation of the system could thus be altered by changing either the fundamental institutions of contract and property rights or by working on the second rank forces, or both. Ely saw this as achievable principally through changes in law, the extension of government functions, the growth of trade unions, and the progress of social Christianity.

This was compatible with liberty as, for Ely, liberty meant the full "expression of the positive powers of the individual," meaning "those powers of contributing to social good with which we believe the members of society to be endowed; in short by the greater power on the part of the citizens as a body to make the most and best of themselves."⁵⁷ Government action, to Ely, was simply an expression of the social will.⁵⁸

suggests it was Ely's desire for professional standing that led him to moderate his views.

54. R.T. Ely, Studies in the Evolution of Industrial Society, pp.464-465.

55. Ibid. See also R.T. Ely, "Progressivism True and False," op.cit.

56. R.T. Ely, Property and Contract, 1: 53-58.

57. R.T. Ely, Studies in the Evolution of Industrial Society, pp.398-409.

58. R.T. Ely, "Fraternalism vs Paternalism in Government," Century 33 (1898): 781-784.

The important point to take from Ely's work on economics is the extent to which he came to accept marginalist theory. On the whole he sought to add to, modify, and improve, the orthodox economics rather than abandon it altogether. He sought to make economics more dynamic, better integrated, less abstract, and hence a safer guide to policy. However, Ely's efforts along these lines proves less useful than might have been because of his determination to fit his economics into a framework of social Christianity, and to derive reformist conclusions. Ely's great contribution lay less in his economics than in his championing of a vast number of reforms, a great number of which have subsequently been enacted.

II H.C. Adams.

Adams' work differs from Ely's principally due to the fact that Adams was a more cautious writer who tended to concentrate on examining particular topics. Thus, although Ely did not attempt a fully worked out theory of economic evolution, Adams went even less far in this respect.

Certainly he shared many of Ely's ideas about the potential role of government, the relationship between law and economics, and the role of social Christianity,⁵⁹ but he tended to confine himself, in the bulk of his work, to providing close analyses of

59. See H.C. Adams, Two Essays, ed., J. Dorfman (New York, 1954); H.C. Adams, "Economics and Jurisprudence" in H.C. Adams, et al., Science Economic Discussion, pp.80-91; H.C. Adams, Outline of Lectures on Political Economy (Baltimore, 1888); H.C. Adams, "The Social Ministry of Wealth," International Journal of Ethics 4 (1894): 173-188; H.C. Adams, "An Interpretation of the Social Movements of Our Time," International Journal of Ethics 2 (1891): 32-50; and L. Volin, "Henry Carter Adams: Critic of Laissez-Faire," Journal of Social Philosophy 3 (1938): 235-250.

particular issues, rather than following Ely into broad pronouncements on the stages of growth and man's evolution. Nevertheless, it is clear that an idea of the evolutionary process very close to Ely's underlay Adams' thinking.

Method and Scope.

Adams was also a German trained economist, having studied with Wagner, Adolf Held, and E. Engle.⁶⁰ On method Adams followed Wagner's position on the necessity of using both induction and deduction. Nevertheless, there is an inductive bias in Adams' work, and he never came to accept marginalist doctrine to the same extent as Ely.⁶¹ In 1896 he wrote:

To my mind the Austrian school has already exhausted itself and I am wondering whether so clear a man as Clark will be able, after committing himself to the mechanical reasoning of the School, to overcome its limitations.⁶²

On the matter of scope Adams accepted the organic view of society and argued that there was a close relationship between economics and jurisprudence, as jurisprudence gave the "structure and the limits within which industrial activity is carried on."⁶³

60. For details of Adams' career see J. Dorfman's introduction to his edition of H.C. Adams, Two Essays, pp.3-55.

61. Ibid., pp.15-20; H.C. Adams, Outline of Lectures on Political Economy, pp.11-14; see also his History of English Industrial Development (Ann Arbor, 1898); and "Taxation in the United States 1789-1816," Johns Hopkins University Studies in Historical and Political Science, 2nd ser. 5-6 (1884). This last item was Adams' Ph.D. thesis. See also H.C. Adams, "Ten Years of Political Economy in the United States," The Inlander 1 (1891): 16-24.

62. H.C. Adams to E.A.R. Seligman, June 1, 1896, quoted by A.W. Coats "The First Two Decades of the American Economic Association," American Economic Review 50 (1960): 569, n.28. Coats suggests that this attitude towards marginalism was, in part, due to Adams' lack of theoretical ability.

63. H.C. Adams, "Economics and Jurisprudence," op.cit., pp.80-91, and "Another View of Economic Laws and Method," ibid., pp.98-103.

Adams was attacked for this view by W.G. Sumner and A.T. Hadley. Sumner argued that Adams was confusing economics and politics and that such things as tradition had nothing to do with the "laws of money as deduced by science." Adams replied that indeed habit, custom, and education did influence the monetary conduct of people.⁶⁴ Hadley's criticism was directed more at Adams' inclusion of law, Hadley putting forward the view that economics rested on "a few simple ideas about human nature." Adams replied that such a basis was inadequate to "explain all industrial facts." Not only did economists need to know about human nature but also about physical laws, such as diminishing returns, and the legal structure. Adams also took exception to Hadley's idea of "rigid laws," and pointed out that economic truths are relative.⁶⁵

According to Adams social science is the study of an organism which is growing. This organism may either be moved by no conscious purpose, in which case laissez-faire is indicated, or the organism may be moved by conscious activity, which leads to "positive study and reform."⁶⁶

Adams argued that people's behaviour could be modified via the law, which is seen as the "means by which the social organism may reach its purpose." Here again Adams emphasises the need for an organic view as when changing something an awareness of

64. Ibid.; and H.C. Adams, Two Essays, Editor's introduction by J. Dorfman, pp.24-25.

65. A.T. Hadley, "Economic Laws and Methods," in H.C. Adams et al., Science Economic Discussion, pp.92-97; H.C. Adams, "Economics and Jurisprudence" and "Another View of Economic Laws and Method," ibid., pp.80-91, 98-103. See also H.C. Adams, Outline of Lectures on Political Economy, p.14.

66. H.C. Adams, "Economics and Jurisprudence," op.cit., pp.85-86.

how the whole works is a necessity.⁶⁷

Adams thus shared the evolutionary and organic view of society with Ely, and also desired that economics be directed towards shaping the process of evolution. Adams' reformism and relativism did, however, lead him into the same problems as are found in the work of Ely. All the same, these problems mar Adams' work less, as he did not often allow his optimism and reformism to overrule his analysis.

Adams on Evolution, Law and Economics.

Adams interpreted the course of history as a continuing effort on the part of man to attain freedom and liberty.⁶⁸ To begin with man had been a slave of nature, regarding natural forces with superstitious respect. The first step in the liberating of mankind came with the arrival of the idea of man's responsibility for his own life, and the resultant emancipation from the awe in which nature was held.⁶⁹

The second step was the liberation of the serf and the recognition of his individual personality. This brought with it the conviction that "laws, beliefs, rights, duties, indeed everything which makes up what is termed the social structure, do not hold rightful sway over man, but that they are instruments to be used by man to command his own destiny."⁷⁰

The third stage came with the industrial revolution, "the era of invention." Adams, borrowing from Adolf Held, differentiated

67. Ibid., pp.87-88.

68. H.C. Adams, "The Social Ministry of Wealth," op.cit., p.174.

69. Ibid., pp.174-175. Adams saw the Hebrew religion as playing a vital role in this transformation.

70. Ibid., pp.175-176. This occurred in the Middle Ages.

between a civilisation based on tools and one based on machinery.⁷¹ To Adams the arrival of machinery took so long because of the "fixity of industrial habits," but its arrival represented the beginnings of man's "deliverance":

Regarded in its bearing on the great problem of civilisation, machinery means the deliverance of man from the necessity of arduous toil in order to attain the means of satisfying a rational existence, and it works this deliverance by bringing under man's direction the boundless forces of nature.⁷²

The potential of this machine age was, however, not being permitted to fulfill its "mission," due to the "passions and petty ambitions" of men. As Adams puts it "the character of civilisation built on machinery will be determined not by machinery, but by the purpose of the men and women who compose society."⁷³ As Adams pointed out:

...men do not work simply to satisfy the requirements of highly developed wants, but to gain and maintain a place of authority in business society. It is not wealth for which men strive, but riches; it is not the desire to satisfy normal wants that serves as the motive to industry, but the ambition to be accounted wealthy. It is this which explains why our marvellous industrial organisation has been prostituted to personal ambition rather than to the more rapid elevation of the standard of rational living.⁷⁴

Adams found many faults with the present state of affairs and singled out for particular attention the activities of large corporations and the separation of labour from the ownership

71. Ibid., p.176. See also H.C. Adams, "An Interpretation of the Social Movements of Our Time," op.cit., p.39.

72. Adams never explained what he meant by the term "rational." H.C. Adams, "The Social Ministry of Wealth," op.cit., p.177.

73. Ibid., p.178.

74. Here again Adams uses terms such as "rational" and "normal" that he never fully explained. Ibid., p.186. What Adams meant by "riches" was the "degree of power one holds in society through possessions." See H.C. Adams, Outline of Lectures in Political Economy, p.17.

of the mechanism of production.⁷⁵ Society was thus divided into possessors and non-possessors, whose interests in the area of distribution Adams saw as opposed. The condition of the working class had become degraded, and thus the ideal "must hold in mind the development of that class called workers." If this did not occur and machinery was used for the absolute leisure of only a few, "the overthrow of our civilisation will be the inevitable result."⁷⁶

Thus, while Adams agreed that

the conditions under which individualism originated, grew and secured for itself a philosophic expression, must have been such that equity and progress, both social and personal, resulted from its influence, for it could not otherwise have developed.⁷⁷

He also pointed out that "at present the workings of self-interest do not in all respects appear to be in harmony with the ideals of justice."⁷⁸

Adams saw that the competitive system was built on certain legal facts: the right of private property in land, labour, and capital, and the right of contract. The benefits of a competitive system so constituted were, to Adams, that labour was free and men could enjoy the fruits of their labour, that there was an ease of movement for both labour and capital, and there was an incentive for cost minimisation. But competition could also

75. H.C. Adams, "An Interpretation of the Social Movements of Our Time," op.cit., pp.37-41; H.C. Adams, "Publicity and Corporate Abuses," Michigan Political Science Association Publications 1 (1894): 109-120.

76. Ibid., p.39; and H.C. Adams, "The Social Ministry of Wealth," op.cit.; p.179.

77. H.C. Adams, "Economics and Jurisprudence," reprinted in Two Essays, p.142. This is a different article from the "Economics and Jurisprudence" to be found in Science Economic Discussion.

78. H.C. Adams, "Economics and Jurisprudence," in Two Essays, p.142.

lead to "evil consequences" against which society should be guarded.

Adams was far from being a socialist, and wished to secure the potential benefits of the competitive system. However, he argued that the results of competition varied according to the "conditions under which it is permitted to act," and these conditions, Adams claimed, were far from perfect.⁷⁹

This brings us to the heart of Adams' analysis. These "evil consequences" of competition were largely due to certain industrial changes which had interfered with the system of jurisprudence. Rights and responsibilities had become separated. Large corporations had developed and Adams argued that the corporate form with limited liability resulted in a lack of responsibility towards the community.⁸⁰

Inter-corporate competition is essentially different in its workings and results from inter-personal competition;...Not only has the industrial power of our day, generated by the organisation of labor and the extensive use of machinery fallen under the control of corporations, but these corporations assert for themselves most of the rights conferred on individuals by the law of private property, and apply to themselves a social philosophy true only of a society composed of individuals who are industrial competitors...It is

79. H.C. Adams, "The Relation of the State to Industrial Action," in Two Essays, pp.86-88. Nevertheless, Adams did come under attack for his opinions, particularly his support of the Knights of Labor when the Knights announced that the 1886 strikes were a "crusade against capital." Adams asked for support from the academic community and received it from Ely and Seligman. See J. Dorfman, editor's introduction to H.C. Adams, Two Essays, p.36. Nevertheless Adams lost his job at Cornell and as a result Adams moved to Michigan University where he remained. See also J. Hollander, "H.C. Adams," op.cit., p.799; E.A.R. Seligman, "H.C. Adams," op.cit., p.269, and S.L. Bigelow, I.L. Sharfman, and E.M. Wenley, "Henry Carter Adams," op.cit., p.205. The views that resulted in Adams' dismissal are partially reproduced in H.C. Adams, "The Labor Problem," The Scientific American 22, supp. (1886): 8861-8863.

80. H.C. Adams, "Economics and Jurisprudence," Two Essays, pp.143-153.

an evil beyond estimate, that the force of self-interest, which, when properly environed, is the source of advantage to the individual as well as to the state, should be permitted an unrestricted and undirected development in the form of corporations, which endangers not only the life of the state, but threatens the permanency of industries themselves.⁸¹

The differences between corporate and personal systems of competition Adams saw as being due to three major causes. First, the limited liability enjoyed by the corporate firm could result in "reckless management," as the incentive to undertake risky and speculative investment is high as potential loss is limited. Indeed, Adams argued that such speculative activities were a direct cause of crises, depressions, and economic instability.⁸²

Second, corporations had created a new form of negotiable property in the form of stocks and shares. Thus, while the size of individually owned enterprises was limited by that person's own wealth and credit standing, no such limitations applied to corporations. Adams also pointed out that competition did not work as a check to corporate expansion for the following reasons. Corporations had advantages over private concerns and the private concerns tended to be eliminated. The corporate form thus spread to all lines of industry and, for Adams, inter-corporate competition tended to lead to combinations and trusts, rather than to the continuance of competition.⁸³ Adams also pointed out that the formation of monopolies may be aided by this lack of

81. H.C. Adams, "Publicity and Corporate Abuses," op.cit., pp.114-117; and L. Volin, op.cit., p.245.

82. Unfortunately Adams does not elaborate on this statement. H.C. Adams, "Publicity and Corporate Abuses," op.cit., pp.110-113.

83. Ibid., pp.113-116. Adams was often less than precise in distinguishing corporations, monopolies, and trusts from each other, as it is clear that, to Adams, the corporate form was the basis for the formation of monopolies and trusts.

limitation on size. Adams distinguished three types of industry, those with decreasing returns, those with constant returns, and those with increasing returns to scale. If an industry enjoyed increasing returns to scale then there was little to prevent the formation of a monopoly.⁸⁴

Third, a corporation is a legal personality, and a legal personality "to whose growth as a center of industrial power there is no assignable limit." Where large scale corporate enterprise operates on a world scale, where its production techniques rest on machinery and not on personal skill, and where managers merge their personalities with that of the large corporation, there is no guarantee that public interest will always be served. Public disapproval in any particular area, locality, or country, has little effect on such an entity.⁸⁵

Corporations and large scale industry were not seen as all bad. In cases of decreasing cost there were obvious advantages to large scale corporate production. The problem was how to eliminate the evils, while still retaining the benefits of scale for the good of the community.⁸⁶

The lack of managerial responsibility mentioned above, is echoed by the lack of responsibility shown by labour towards property. Due to the coming of expensive machinery, ownership

84. It has been claimed that Adams was the first economist to utilise this concept of decreasing cost in the classification of types of industry. It was from Adams that Ely took this idea. See L. Volin, op.cit., pp.244-245; and H.C. Adams, "Economics and Jurisprudence" in Two Essays, pp.143-148; and H.C. Adams, "Publicity and Corporate Abuses," op.cit., p.115. Here Adams states that "At the bottom of every monopoly may be traced the insidious influence of the peculiar privileges which the law grants to corporations."

85. H.C. Adams, "Publicity and Corporate Abuses," op.cit., pp.116-117.

86. H.C. Adams, "Relation of the State to Industrial Action," op.cit., pp.98-105.

of production capital and labour had become separated, resulting in a decline of concern among labourers for the wellbeing of the commercial enterprise for which they worked.⁸⁷

Adams made one further criticism of the competitive principle, this criticism being independent of any industrial or technological changes that may have taken place. Here Adams' concern was with the ethical plane of competition. Adams developed his argument as follows:

Suppose that of ten manufacturers nine have a keen appreciation of the evils that flow from protracted labor on the part of women and children...But the tenth man has no such apprehensions...If now the state stands as an unconcerned spectator...the nine men will be forced to conform to the methods adopted by the one. Their goods come into competition with his goods, and we who purchase do not inquire under what conditions they were manufactured. In this manner it is that men of the lowest character have it in their power to give the moral tone to the entire business community.⁸⁸

From this analysis Adams demonstrated that under present conditions unregulated competition resulted in combinations, trusts, and monopolies, the decline of personally owned businesses, the separation of the labourer from the ownership of capital, and a low ethical level of business practice. To this could be added certain social consequences such as the prevalence of ostentation and status seeking among the better off, strikes and industrial unrest among labourers, and the possibility of serious conflict between the leisured and the working classes.

87. H.C. Adams, "Economics and Jurisprudence," Two Essays, pp.148-153.

88. H.C. Adams, "The Relation of the State to Industrial Action," op.cit., pp.38-45.

The problem then is to alter the "purpose of...men and women." According to Adams the social structure of industrial society was "yet plastic," and could be shaped by the "simple wishing of simple men and women." Provided, of course, that the common people could be "brought to think rightly." Their wishes could be expressed through their power as consumers, and through government which Adams saw as capable of expressing the "moral sense" of society.⁸⁹

Other forces which Adams thought could help were trade unions and the development of a new social philosophy. Trade unions to Adams were a counter-movement which marked "the second step in the crystallization of industrial power," the "re-crystallization of industrial rights and duties."⁹⁰ The statesman and the scholar also have a role in overcoming the "mal-adjustment of a social principle to social conditions."⁹¹ The statesman must set himself the task of re-establishing the harmony in the social organism by adjusting "the structure of government and modifying the law of industrial rights and duties."

89. Here Adams is at his most idealistic. As consumers people can, according to Adams, easily exert an influence as "All one has to do is to cultivate his own tastes so as to desire those things which are worthy because they are beautiful and useful. The soul grows to be like that upon which it feeds, and by demanding beauty and nobility for itself becomes beautiful and noble." These ideas Adams seems to have taken from William Morris. See H.C. Adams, "The Social Ministry of Wealth," op.cit., pp.178-184.

90. H.C. Adams, "An Interpretation of the Social Movements of Our Time," op.cit., pp.46-49. See also M. Perlman, Labor Union Theories in America (Evanston, 1958), pp.163-173.

91. H.C. Adams, "An Interpretation of the Social Movements of Our Time," op.cit., pp.41-48; socialist ideas had to Adams played an important role in bringing criticisms of laissez-faire to public notice. Adams, however, rejected the centralising tendencies of socialism and wished to develop an economics compatible with American ideas of liberty. This American Political Economy was to be legal rather than industrial. See H.C. Adams, "The Position of Socialism in the Historical Development of Political Economy,"

The scholar attempts to find the trend of events and discover some way "by which the deep ethical purpose of society can be brought to bear upon industrial questions."⁹² This to Adams is clearly compatible with his statement that the purpose of economics is "to determine a scientific and rational basis for the formation and government of industrial society."⁹³

By means such as these Adams declared:

that the wonderful facilities for the production of wealth which characterise the nineteenth century may be wrested from the service of degrading ambition and made to perform the social function to which the logic of history declares it is called.⁹⁴

Here again we find the combination of the idea of the progressiveness of history together with the idea of the need for man to act in order to achieve his destiny. However, what provides special interest in Adams' outline is his emphasis on the role of machine technology, of habit, and his view that the benefits from this technology have been used in an ostentatious manner by a few in order to raise their social standing. These themes recur in Veblen's work. Nevertheless, in his later work Adams rarely returned to these ideas.

Adams' Reformism.

The reform programme outlined by Adams was less extensive than that put forward by Ely, and based more firmly on his economic analysis. Indeed, the parts of Ely's programme that were most soundly based frequently find their analytic foundations in

The Penn Monthly 10 (1879): 285-294.

92. H.C. Adams, "An Interpretation of the Social Movements of Our Time," op.cit., pp.41-47.

93. H.C. Adams, Outlines of Lectures on Political Economy, pp.13-14.

94. H.C. Adams, "The Social Ministry of Wealth," op.cit., p.188.

borrowings from Adams' work.⁹⁵

On corporations in general Adams felt that the corporate form should be limited to those undertakings where "the interests of the public are relatively greater than the interests of the individual proprietor." Indeed all such enterprises were to be required to take the corporate form. In return for the liberties of incorporation, all corporations would be required to make reports "as will enable the government, acting under rules prescribed by law, to direct their policy and control their administration."⁹⁶

This rather strict attitude towards corporate enterprise in general is, however, something that drops out of Adams' later work to be replaced by a more specific concern with monopoly, and in particular the railroads.⁹⁷

It was Adams who first distinguished between "legal" and "natural" monopolies, but Adams, unlike Ely, did not support public ownership. Adams felt that the natural monopoly could be adequately controlled via the use of commissions.⁹⁸ Although Adams was forced to admit that the Interstate Commerce Act and the commissions it set up had not performed to expectations, he argued that this was due to the weakness of the commissions, and

95. Particularly in the case of Adams' analysis of the role of law, monopolies, and his idea of the level of competition.

96. H.C. Adams, "Publicity and Corporate Abuses," op.cit., pp.119-120.

97. See L. Volin, op.cit., p.246. Adams had a particular interest in railroads as he was the first statistician to be employed by the Interstate Commerce Commission.

98. H.C. Adams, Outline of Lectures on Political Economy, pp. 39-40. The "legal" category is equivalent to Ely's "social" category while natural monopoly was due to decreasing costs. Adams also distinguished a third category, that of "capital" monopoly, where the monopoly was established because of the large amounts of capital required before production could be undertaken.

a lack of clarity over their rights. In addition, the commissions also had difficulty in arriving at the facts of a case due to their lack of statistical, accounting, and economic information.⁹⁹

Adams argued that if the commission idea was to work, and they were to be able to establish "just" prices, then they must possess a statistical service and company accounts must be standardised. Adams did much to encourage the adoption of uniform systems of valuation and accounting. Such a programme was, to Adams, necessary for the proper social control of monopolies.¹⁰⁰

One further and most interesting point that Adams made in connection with monopolies concerned "intangible" property. Adams noted that the courts had recognised a "franchise value" for railroads which resulted in the total valuation of assets being above that of the physical property of the company. This "surplus value" came, according to Adams, from the value of the organisation, and could be broken down into the value of the franchise, the existence of local captive markets, the possession of traffic held "by established connections," the benefits flowing from increased traffic (in Adams' analysis railroads are

99. See H.C. Adams, "A Decade of Federal Railway Legislation," Atlantic Monthly 81 (1898): 433-443; and H.C. Adams, "Discussion of the Interstate Commerce Act," Michigan Political Science Association Publications 1 (1893): 137-143.

100. H.C. Adams, "Valuation of Public Service Utilities," American Economic Association Publications, 3rd ser. 10 (1910): 184-238; H.C. Adams, American Railway Accounting; A Commentary (New York, 1918); H.C. Adams, "Principles of Public Accounting," Michigan State Tax Association; Proceedings of Seventh Annual Conference, (1898), pp.18-38. See also the many publications Adams produced for the Interstate Commerce Commission, such as Classification of Operating Expenses (Washington, 1891); Classification of Expenditures for Road and Equipment of Electric Railways (Washington, 1908); Classification of Expenditures for Real Property and Equipment of Express Companies (Washington, 1908); and Classification of Expenditures for Additions and Betterment (Washington, 1910).

decreasing cost industries), and the influence of the vitality of the industries being served.¹⁰¹

Now this surplus value is "monopolistic in its origin," and a portion of it is a "direct contribution from the public." Adams argues that

competition is incapable of diffusing this value through a reduction of the price of the service. It is a socially produced value and the logical application of the principle which lies at the bottom of the institution of private property--namely: that he who produces a thing should be its proprietor--will lead to the conclusion that the public is a joint proprietor with railway corporations in the property which they control.¹⁰²

Besides demonstrating Adams' continued adherence to natural law concepts, the analysis also has importance in that once the idea of intangible property being a quasi-public property is accepted then, Adams argues, the system of the general property tax requires modification. According to Adams "the underlying principle of the financial system of the future will be the recognition of a joint proprietorship between the public and the corporations in all cases where surplus value proves to be a permanent feature."¹⁰³

The formation of trusts was, to Adams, a closely related problem to that of monopolies. Trusts may be due to the paucity of business talent, the advantages given by the railroads to large customers, and the activities of unions, which, by raising wage rates, tend to force small firms out of business, as well as

101. H.C. Adams, "Tendencies in Railway Taxation," American Economic Association Publications, 3rd ser. 6 (1905): 51-60.

102. Ibid., p.59.

103. Ibid., p.60.

the nature of corporate competition.¹⁰⁴

The solution to the trust problem lay, therefore, in control of the railroads, educational programmes for prospective managers, and a "final determination of the rights and duties of employers and employees."¹⁰⁵ At the present time industrial responsibility on the part of labour was hardly to be expected as labour owned no capital. Hence the solution to the trust problem and the labour problem are related.

Adams recognised the need to admit the fact of "social production through association," and, as noted above, wished to see the development of the idea of social property. In this the unions could play a key role, and Adams desired the establishment of collective bargaining and arbitration procedures combined with the development of "proprietary labour rights" in commercial undertakings.¹⁰⁶

The labour movement was to Adams "a step in the further development of individual rights." In this manner Adams argued that the conflict between labour and capital "by a sort of a dialectical process" would produce a "new synthesis of the business corporation and the labor union in a higher, socially more harmonious form of industrial organisation."¹⁰⁷

In other words, in order to re-establish the harmony between the operation of the economy and ideas of justice and industrial

104. H.C. Adams, "Trusts," American Economic Association Publications, 3rd ser. 5 (1904): 91-107.

105. Ibid., pp.105-107.

106. H.C. Adams, "Economics and Jurisprudence" in Two Essays, pp.154-162.

107. L. Volin, op.cit., pp.247-248. See also H.C. Adams, Description of Industry; Introduction to Economics (New York, 1918). Dorfman also notes this Hegelian trend in Adams' thinking. See Dorfman's introduction to Two Essays, p.7.

liberty certain new legal and institutional forms would have to be developed. There should be a right of property for every citizen of the industrial world. As Adams put it "there is no industrial liberty without industrial property," and "property must first express the rights of the individuals associated together in an industrial unit; it must, next, express the duties of these industrial units to the public at large."¹⁰⁸

As well as regulating the activities of corporations and monopolies government had an additional role in raising the ethical level of competition. Adams maintained that such things as the regulation of child and female labour, maximum working hours, and similar legislation could do much to raise the level of competition.¹⁰⁹ Adams' programme was much less ambitious than Ely's, Adams being content to argue that such legislation should reflect the moral sense of society. Nevertheless, Adams' programme represented a considerable extension of the area of government activity. Adams argued that the correct functions of government could only be decided upon in the light of a concrete situation, no a priori statement being possible.¹¹⁰

An example of this is found in Adams' growing concern after the First World War over the effect of foreign investments by industrial nations. Adams argued that

it quickly becomes the dominant commercial purpose of those peoples who stand in the fore rank of economic attainment to exploit the industrial

108. H.C. Adams, "Economics and Jurisprudence," in Two Essays, pp.154-162.

109. H.C. Adams, "Relation of the State to Industrial Action," in Two Essays, pp.38-47.

110. H.C. Adams, "The Theory of Public Expenditures" American Economic Association Publications, 1st ser. 10 (1895): 87-93. See also H.C. Adams, "Taxation in the United States," op.cit.; H.C. Adams, The Science of Finance (New York, 1898).

opportunities of backward peoples...; the master fact of the present situation is that peoples who possess the power for aggression have decreed that the world must be reorganised to meet the requirements of machine production and big business control.¹¹¹

In this manner a set of debtor and a set of creditor nations are created, and the creditor nation may use its own court system and diplomatic pressure to influence the business and political life of the debtor nations. Also dangerous is the fierce competition among industrial nations for privileged positions that Adams observed in countries like China and Persia. Adams suggested the establishment of an international commission to supervise foreign investments.¹¹²

The final problem treated by Adams was that of general corruption. Should the powers of government be extended when government was so inefficient and corrupt? Adams' argument was that the inefficiency and corruption could be overcome through the extension of government and the establishment of a professional, well paid, and career structured civil service.¹¹³

III S.N. Patten.

Patten's work represents an attempt to develop a theory of progressive evolution by combining elements taken from the German historical writers, evolutionary sociologists, utilitarianism, and marginalist doctrine. Patten differs from Ely and Adams in the extent of his materialism and individualism, but he had a similar end in view; to provide a "scientific" foundation for his

111. H.C. Adams, "International Supervision Over Foreign Investments," American Economic Review 10, supp. (1920): 58-67.

112. Ibid.

113. H.C. Adams, "Relation of the State to Industrial Action," in Two Essays, pp.89, 114.

deeply held ethical beliefs.¹¹⁴

Patten on Method and Scope.

Patten conceived of this theory of progressive evolution as "a realistic concrete science treating "all the phenomena of society."¹¹⁵ Realism for Patten was a function of the extent to which "all the phenomena" were included, and was necessary to ensure the usefulness of the science for understanding and directing the course of evolutionary change.

In attempting to achieve such a science Patten moved well outside the traditional boundaries of economics into biology, sociology, and psychology. Patten did not equate this larger science with "pure economics" but he did maintain that it all fell within the realm of a larger "economic theory." This was because Patten gave economic factors and economic behaviour a fundamental role in this science.¹¹⁶

Patten's "realistic concrete science" was made up by bringing together three individually "hypothetical" theories, the theory of goods, the theory of utilities, and the theory of social forces.¹¹⁷ Patten argued that the theory of goods and the theory of utilities together made up the field of "pure economics." He criticised the "old social philosophies" for dividing this

114. J.L. Boswell, op.cit., pp.34-45; D.M. Fox, op.cit., passim; R.G. Tugwell, "The Life and Work of Simon Nelson Patten," op.cit., p.191.

115. S.N. Patten, "The Relation of Economics to Sociology," Annals of the American Academy of Political and Social Science 5 (1895): 577.

116. S.N. Patten, "The Scope of Political Economy," Yale Review, o.s., 2 (1893): 264-287; "The Organic Concept of Society," Annals of the American Academy of Political and Social Science 4 (1894): 404-409; "The Failure of Biologic Sociology," Annals of the American Academy of Political and Social Science 4 (1894): 119-145; and The Reconstruction of Economic Theory, pp.1-12.

117. S.N. Patten, "The Relation of Economics to Sociology," op.cit., pp.582-583.

field into political economy and utilitarianism and separating them from each other. Patten maintained that pure economics had to include both "subjective" and "objective" elements.¹¹⁸ The theory of goods Patten defined as "a theory of material wealth and of the objective conditions which determine its production and increase." The theory of utilities was a theory of individual rational choice based on utilitarian calculation, but Patten argued that "some alloy from the objective world must be mingled with the purely subjective phenomena of utilitarianism to make the latter concrete and definite." Thus the choices of individuals are seen as conditioned by the physical, "objective" environment.¹¹⁹

Patten then went on to argue that a complete picture, particularly for the "higher forms of society," could only be obtained with the addition of a theory of "social forces." He allowed that this was a legitimate field for sociologists and psychologists, although that by no means prevented him from exploring it himself. The theory of social forces considers the development and role of such things as customs, laws, habits, institutions, and beliefs. These go to make up the "subjective environment," which, just as the objective environment, is capable of modifying human behaviour and choice.¹²⁰

118. S.N. Patten, "The Scope of Political Economy," op.cit., pp.264-286.

119. Ibid.

120. S.N. Patten, "The Organic Concept of Society," op.cit., pp.404-409. It is important to note that in this article Patten defines the organic concept of society in a radically different way from most of his contemporaries. To Patten the organic concept relates only to the type of unity produced by economic forces, such as the division of labour, and ignores the role of social forces. For others the organic concept was used to stress the interrelatedness of economic, social, legal and ethical forces. Patten's

Patten reconciles this theory with his underlying emphasis on economic forces by arguing that the economic situation shapes the subjective environment. Thus, a society is formed when individuals project the same subjective environment, and this occurs when "objective conditions and the pressure of utilitarian motives are the same for a group of individuals."¹²¹ Patten avoids stating that the present can be understood entirely by reference to present objective conditions by arguing that social laws are slow to change and therefore may be out of step with the objective environment.

Patten, along with Ely and Adams, saw the evolutionary process as progressive, and, despite his criticisms of the unilinear schemes of the evolutionary sociologists,¹²² he argued that there was a "normal line of development" which would culminate in the formation of a "social commonwealth." This social commonwealth reflected Patten's religious ideals and acted as an absolute standard of judgement.¹²³ Patten, in effect, backs away from a thoroughgoing relativism and maintains that there is a basic part of human nature that may be submerged but not eradicated by environmental conditions. This he equates

definition comes nearest to that of Durkheim's "organic solidarity," but there is no evidence that Patten was familiar with Durkheim

121. Ibid., p.408.

122. S.N. Patten, "The Failure of Biologic Sociology," op.cit., pp.119-145; S.N. Patten, "The Background of Economic Theories," Publications of the American Sociological Society, 7 (1912): 126-130. Patten was particularly critical of Spencer for generalising from English experience only, despite the fact that he did the same thing himself in his Development of English Thought (New York, 1899) because English experience was the most typical.

123: S.N. Patten, The Theory of Social Forces (Philadelphia, 1896), pp.81-99.

equates with the "normal," which is the "permanent, the abiding, the good."¹²⁴

Patten felt that social science should be aimed at forwarding the "progressive forces of society," and achieving the social commonwealth.¹²⁵ Thus, although Patten attempted to translate his ethical ideas into "scientific" and logical propositions,¹²⁶ it is precisely this aspect of his work that led him into his most unsatisfactory pronouncements.¹²⁷

On method Patten argues that the correct methodology consists of a combination of induction and deduction in which "the inductions precede and determine the deductions." He argues that in economics causes are apparent and discoverable by observation and that deductive reasoning should then proceed from causes to effects.¹²⁸ Such statements as these, and Patten's rejection of the general applicability of laws of human behaviour to all historical epochs, have led some commentators, such as Noble, to conclude that Patten was basically inductive in approach,¹²⁹ while in fact he used historical techniques only rarely, and empirical methods never. Patten's observation was always of

124. See D.W. Noble, op.cit., pp.193-198.

125. S.N. Patten, "The Scope of Political Economy," op.cit., p.264.

126. Patten later became a convert to Pragmatism in his attempts to do this. However, his conception of Pragmatism was not a particularly sophisticated one. See S.N. Patten, "Pragmatism and Social Science," Journal of Philosophy, Psychology, and Scientific Method 80 (1911): 273-279; and such articles as "Can Economics Furnish an Objective Standard of Morality," The Journal of Speculative Philosophy 12 (1892): 322-332; and "The Economic Basis of Prohibition," Annals of the American Academy of Political and Social Science 2 (1892): 59-68.

127. S.N. Patten, "The Scope of Political Economy," op.cit.

128. S.N. Patten, "The Failure of Biologic Sociology," op.cit., pp.928-929; and S.N. Patten, "Malthus and Ricardo," American Economic Association Publications, 1st ser. 4 (1889): 9-34.

129. D.W. Noble, op.cit., p.180.

the most casual kind, and, as Tugwell has stated, Patten was a great deal more deductive in approach than he often seemed to recognise himself.¹³⁰

Patten's Theory of Progressive Evolution.

Patten's ideas concerning his evolutionary scheme are presented in The Premises of Political Economy, The Consumption of Wealth, and The Theory of Social Forces. In these works Patten attempts to show that prosperity and progress are being held back due to a lack of adjustment between subjective and objective environments; a type of culture lag. Patten's argument rests on a psychological theory which relates the objective to the subjective environment but allows for the possibility of mal-adjustment.¹³¹

Patten makes a sharp distinction between sensory and motor activities. Sensory ideas are impulses carried to the brain from the sense organs, while motor activities are the automatic adjustment of the organism to the environmental information provided by the sense organs. Automatic adjustment to Patten included the development of values, spiritual and intellectual desires, and ways of thinking. Given a harsh environment man would respond with ideas and institutions designed to avoid pain to the self, and hence man's selfish and competitive outlook during eras of scarcity. On the other hand, an abundant or pleasure filled environment should lead to a "social commonwealth" of cooperation, selflessness, a regard for others, and due to

^{130.} R.T. Tugwell, "The Life and Work of Simon Nelson Patten," op.cit., p.185. Later in his career Patten did align himself with deduction, although he continued to argue that deductions should be firmly based on facts. See S.N. Patten, The Reconstruction of Economic Theory, p.4.

^{131.} See H.R. Seager, "Professor Patten's Theory of Prosperity,"

freedom from the fear of scarcity and pain, a concentration on intellectual and spiritual matters, and self-restraint.¹³²

However, Patten also argued that motor responses may become hardened and difficult to change. As these motor responses determine the subjective environment, there is the possibility that the subjective and objective environments will not be adjusted to each other.¹³³

Patten went on to postulate that history can be divided into two epochs, a "pain economy" up to the 17th century and a "pleasure economy" which had been developing slowly since then. America, according to Patten, was still in the process of transition to a pleasure economy. The pain economy had resulted in most people being timid and conservative, attempting to avoid pain. With the arrival of small increases in natural wealth a "sensualist" type emerges who exploits the timid "clingers." These sensualists are, for instance, feudal lords or capitalists who respond with greed and selfishness to the growth of surplus.¹³⁴ Their behaviour perpetuates scarcity for others by maintaining an unequal distribution of income, poverty, and by securing the use of production resources for "overconsumption."¹³⁵

Annals of the American Academy of Political and Social Science 19 (1902): 241.

132. S.N. Patten, The Theory of Social Forces, pp.5-48. Patten, like the utilitarians, but unlike Spencer, did not postulate a future where all pain was eliminated, as the existence of pain was to Patten necessary as a restraint. See, The Theory of Social Forces, pp.75-77; and S.N. Patten, "Can Economics Furnish an Objective Standard of Morality," op.cit., pp.322-332.

133. S.N. Patten, The Theory of Social Forces, pp.75-77, 122; D.M. Fox, op.cit., pp.71-73; D.W. Noble, op.cit.

134. S.N. Patten, The New Basis of Civilization (Cambridge, Mass., 1968), pp.67-94. D.W. Noble, op.cit., pp.183-186.

135. S.N. Patten, The Theory of Prosperity (New York, 1902); S.N. Patten, "The Effect of the Consumption of Wealth on the Economic Welfare of Society," in H.C. Adams et al., Science Economic

Patten spent a considerable amount of effort on the analysis of consumption. He argued that conditions of scarcity led to strong appetites for relatively few commodities so that as productive potential increased it would tend to be used for the increased production and overconsumption of a narrow range of goods.¹³⁶ Patten felt that this was, in some sense, inefficient, as a greater total of utilities could be generated if consumption was switched to a broader range of complementary goods.¹³⁷ At times Patten also argued that the production of a wider range of goods could help avoid the problem of diminishing returns, although his argument on this point was weak.¹³⁸

Consuming a broad range of complementary goods, including intellectual goods, was, for Patten, a condition of progress, as abundance could not be achieved as long as behaviour was conditioned by habits formed under scarcity. Although the rational consumer behaving "normally" would respond by consuming a wider variety of goods and avoiding overindulgence,¹³⁹ the problem was to break old habits.

On occasion Patten takes an extremely deterministic position,

Discussion, pp.123-135; A. Johnson, "Patten's Theory of Property," Political Science Quarterly 17 (1902): 313-317.

136. S.N. Patten, The Premises of Political Economy (New York, 1968), pp.49-71; S.N. Patten, The Consumption of Wealth (Philadelphia, 1901); S.N. Patten, "The Economic Basis of Prohibition," op.cit., pp.59-68.

137. S.N. Patten, The Theory of Dynamic Economics (Philadelphia, 1892); S.N. Patten, "Cost and Utility," Annals of the American Academy of Political and Social Science 3 (1893): 409-428; S.N. Patten, "Cost and Expense," ibid., pp.703-735.

138. S.N. Patten, The Premises of Political Economy, p.71.

139. S.N. Patten, The Theory of Dynamic Economics, pp.128-134; S.N. Patten, "Cost and Utility," op.cit., pp.409-428.

arguing that those who failed to adjust would simply be weeded out in the evolutionary process, but particularly in his later work Patten emphasised the need for positive action in order to aid those groups who could not, because of their poverty, be expected to adjust by themselves.

The Practice of Transition.

Transition to the social commonwealth was, for Patten, a matter of the creative adjustment of those who had escaped scarcity, combined with the growth of religious feeling and an ambitious programme of government legislation and social work.¹⁴⁰ Those individuals or families who had adjusted would, in turn, improve conditions for their children and for others. For instance, the capitalist could become a "socialised capitalist," and engage in "income altruism" to help others. These fully adjusted personalities would undertake a programme of social work to eliminate poverty and help their fellow men also to adjust. As Patten stated:

there can be no permanent progress until poverty is eliminated, for then and only then will the normally evolving man...force adjustments generation by generation, which will raise the general level of intellect and character.¹⁴¹

140. Religious feeling was also "normal." See S.N. Patten, The Social Basis of Religion (New York, 1911); and S.N. Patten, "The Economic Causes of Moral Progress," Annals of the American Academy of Political and Social Science 3 (1893): 129-49; S.N. Patten, The New Basis of Civilization, 1907 (New York, 1953), pp.67-94. Of course Patten's reform programme also involved his "reconstructed economics," and he criticised classical theory as being the result of conditions of scarcity. See S.N. Patten, The Reconstruction of Economic Theory, passim.; S.N. Patten, "Malthus and Ricardo," op.cit.; S.N. Patten, "The Interpretation of Ricardo," Quarterly Journal of Economics 7 (1893): 322-353.

141. S.N. Patten, The New Basis of Civilization, p.197.

Patten did not find the work of existing charities and voluntary agencies anything like adequate for the task, as they were, to Patten, directed by old fashioned and outmoded values, useless for aiding the adjustment of the poor.¹⁴²

Patten argued that social workers should actually agitate for more and better legislation to eliminate the causes of poverty. Social work should be directed at improving environments rather than at giving advice to those whose supposed "inadequacies" or "personality defects" led them into poverty. According to Fox, Patten, although he sometimes played down the role of the state, was clearly looking forward to a welfare state replacing the efforts of the voluntary charities. He argued that people must be moved "from the margin" instead of being aided "at the margin," and maintained that the criteria for success should be the number of "independent self supporting families" created.¹⁴³

This movement of people from the margin involves their education into proper consumption habits, their own and social workers' agitation for higher wages, shorter hours, and other factory legislation, the provision of healthy and intellectually stimulating recreational and educational facilities, tenement house reform, and public sanitation programmes. To Patten this "new civilisation will be ready as soon as social work has been made a science and is practiced with knowledge and ideas which make clear...the treasures in health and happiness and safety

142. For an expanded discussion of this point see D.M. Fox, op.cit., pp.100-104.

143. Ibid., and S.N. Patten, The New Basis of Civilization, pp.20, 204-220; and S.N. Patten, "The Political Significance of Recent Economic Theories," Annals of the American Academy of Political and Social Science 32 (1908): 82-94.

of the new time."¹⁴⁴ Social work combined with government legislation were to Patten the major agents of both social amelioration and social control.

Patten's emphasis on legislation is one aspect of his work echoed by many of his contemporaries, but his conception of social work was very largely Patten's own, and it earned him both considerable support and admiration, as well as hostility from the established charity organisers.¹⁴⁵

Patten also placed great emphasis on the role of education. In his Theory of Dynamic Economics he argues that:

As the importance of the psychical elements of production becomes more clearly perceived, ...the scheme of education will be broadened until all the productive qualities and feelings in men are encouraged. This education must continue until every individual is prompted by the same social feeling, and looks upon the field of production from the same standpoints. The dominant characteristics of each class will then be a part of the psychical premises of every other class, and the feelings developed by the opposition of class interest will disappear.¹⁴⁶

Social work and education were also to be combined with further state action in the form of tariff protection. This would help America's "adjustment" and prevent it from being upset via the influence, through trade, of nations that had not yet adjusted.¹⁴⁷ Patten's programme was thus one of considerable state action combined with the encouragement of religion and the ideal of cooperation.

145. See D.M. Fox, op.cit., pp.100-104; for details on the arguments that raged between Patten and pillars of the charity movement such as Miss Richmond. See also S.N. Patten, "Backsliding on Social Work," Survey 44 (1920): 338-343.

146. S.N. Patten, The Theory of Dynamic Economics, p.153.

147. S.N. Patten, The Economic Basis of Protection (Philadelphia, 1890).

IV Institutionalism and the New School Writers.

The work of Ely, Adams, and Patten had an important influence on later institutionalist writers, several of whom were their pupils. Ely had a large impact on J.R. Commons, Adams influenced W.H. Hamilton and C.H. Cooley, among others, and Patten left his mark on R.G. Tugwell.¹⁴⁸ Veblen was also taught by Ely and Adams, and although he was unimpressed by Ely, he may have absorbed something from Adams. Veblen was also familiar with Patten's work.¹⁴⁹ Adams and Patten had an influence primarily on their pupils, but Ely's ideas achieved a wider notoriety through his involvement in the "Wisconsin experiment," his links with political progressivism, and his close involvement in the founding of the American Economic Association.¹⁵⁰

The elements in the thought of Ely and Adams which recur in the writings of institutionalists are the emphasis on law and the importance of the structure of rights, the notion of collective action and unions as a source of countervailing power, the place given to market power in the distribution of income, and the concern with the plane of competition. All of these ideas and Ely's emphasis on the human will can be found in the work of

148. J. Dorfman, The Economic Mind in American Civilization, 3: 161-173, 176-293, and 5: 414-438; A. Gruchy, Modern Economic Thought, p.408; D.M. Fox, op.cit., pp.160-171; J. Dorfman, "The Background of Institutional Economics," op.cit., p.30; A.W. Coats, "R.T. Ely," op.cit., p.34.

149. J. Dorfman, Thorstein Veblen and His America, pp.39-41; T. Veblen, "Review of S.N. Patten's The Development of English Thought," Annals of the American Academy of Political and Social Science 14 (1899): 125-131.

150. R.T. Ely, Ground Under Our Feet, pp.108-102, 277-279; B.G. Rader, op.cit., pp.18-27; S.Fine, "R.T. Ely; Forerunner of Progressivism," op.cit., pp.619-624; C. McCarthy, The Wisconsin Idea (New York, 1912); M. Curti and V. Carstensen, The University of Wisconsin: A History, 1848-1925 (Madison, Wis., 1949); A.W. Coats, "The First Two Decades of the American Economic Association,"

J.R. Commons,¹⁵¹ and W.H. Hamilton also demonstrates a concern for the relationship between law and economics.¹⁵² Adams' emphasis on the role of machine technology may have had some influence on Veblen.

In Patten's case, his ideas of potential abundance, culture lag, and his argument that consumption choices should be linked to objective as well as subjective considerations all crop up in Tugwell's work.¹⁵³ Patten's basic argument that "progress" is, in some sense, being held back by outmoded habits is a central theme in institutionalist literature,¹⁵⁴ although Patten's psychological theories never reappear. The evolutionism and reformism of all the new school writers have also been carried on by institutionalists.

There are, however, major weaknesses in the work of Ely, Adams, and Patten, and while institutionalists have not entirely overcome these difficulties the way in which they attempt to solve the problems which cause them is quite different. The weaknesses in new school writings all involve the attempt to arrive at an economic theory which is evolutionary, in the sense that human behaviour is taken as variable and in part a social product, and also explicitly reformist in character. This involves

American Economic Review 50 (1960): 566-571. Ely's influence in the A.E.A. declined as the association gradually became more of a scholarly body.

151. See below chapter 7.

152. See below chapter 5.

153. See below chapter 8.

154. The theme of culture lag and the inhibiting force of outmoded behaviour patterns forms an important part of the work of Veblen, Tugwell, Ayres, and W.H. Hamilton. It is much less important in the work of Commons, and appears only more peripherally in the work of Mitchell. See below chapters 4-10.

the use of some social psychology or other, and an attempt to set up some criterion of judgement independent of current beliefs. Not only are the social psychologies of new school writers undeveloped or inadequate, but they intermix their evolutionary relativism with a moral absolutism and a belief in the progressiveness of history.¹⁵⁵ At times this utopianism takes the place of positive analysis. Institutionalists face similar difficulties but approach the problems in a somewhat more sophisticated way that relies heavily on the work of T. Veblen and J. Dewey. Veblen and Dewey based their judgements on engineering or instrumental criteria rather than on ethical or religious considerations, and went much further in attempting to provide a foundation for an evolutionary economics in both social psychological and epistemological terms. Veblen also provided a critique of marginalist doctrine, and an analysis of the weaknesses of capitalism that is far wider ranging than that provided by Ely, Adams, or Patten.¹⁵⁶

155. D.W. Noble, op.cit., passim. This was a common feature of the work of the "progressives" of the time.

156. See below, chapter 4.

CHAPTER 4

THORSTEIN VEBLER'S EVOLUTIONARY

ECONOMICS

Veblen's work has been subjected to a greater number of examinations than that of any other writer associated with the institutionalist movement, but there is still considerable disagreement over its value.¹ What is more, Veblen's work is often unclear, and his views on some issues vary from book to book. His satire and his attempt to appear as an entirely disinterested observer also create difficulties in interpretation, particularly as his detachment is more illusory than real.² Despite the fact that some commentators have accepted the view of Veblen as a "man from Mars,"³ his work is very much a product

1. Compare R.V. Teggart, "Thorstein Veblen: A Chapter in American Economic Thought," University of California Publications in Economics 11 (1932-35):1-126; L.E. Dobriansky, Veblenism: A New Critique (Washington, 1957); S.M. Daugert, The Philosophy of Thorstein Veblen (New York, 1950); A.K. Davis, "Thorstein Veblen Reconsidered," Science and Society 21 (1957): 52-85; A.L. Harris, "Veblen as a Social Philosopher: A Reappraisal," Ethics 63 (1953): 1-32; D. Dowd, Thorstein Veblen (New York, 1966); A. Gruchy, Modern Economic Thought, pp.32-131; J.A. Hobson, Veblen (London, 1936); P.T. Homan, Contemporary Economic Thought (New York, 1928), pp.105-192.

2. R.V. Teggart, op.cit.; S.M. Daugert, op.cit.; L.E. Dobriansky, op.cit. See also B. Rosenberg, The Values of Veblen (Washington, 1956); and D. Riesman, "The Social and Psychological Setting of Veblen's Economic Theory," Journal of Economic History 23 (1953): 199-277.

3. P.T. Homan, Contemporary Economic Thought, p.192; J. Dorfman, The Economic Mind in American Civilization 3: 446.

of his own time and place, and can be seen as an attempt to synthesise many contemporary intellectual currents.

In this connection it is important to note that Veblen had a particularly long and varied student career. He came into contact with men as diverse as W.G. Sumner, J.L. Laughlin, C.S. Peirce, J.B. Clark, H.C. Adams, R.T. Ely, and J. Dewey, and was familiar with the writings of Marx and other socialists, E. Bellamy, L.H. Morgan, L.F. Ward, H. Spencer, J. Rae, S.N. Patten, and the German historical school.⁴ As one commentator has stated, Veblen, in his rejection of orthodox economics, replaced it with "almost every other conceivable element."⁵

I Method and Scope.

Veblen's views on the method and scope of economics had the effect of re-opening the debates over the nature of economics which had been gradually fading with the decline in the heated rhetoric of the early new school years.⁶ Veblen, however, attempted to do much more than the new school writers, and he approached the epistemological problems involved in an evolutionary approach to economics in a more sophisticated way. Veblen's views on knowledge are closely connected to his theory of the evolutionary process, his critique of contemporary society, as

4. The standard biographical treatment is J. Dorfman, Thorstein Veblen and his America, although there are many shorter works. See J. Dorfman, "The Source and Impact of Veblen" in D. Dowd ed., Thorstein Veblen: A Critical Reappraisal (New York, 1958), pp.1-12.

5. T. Parsons, "Sociological Elements in Economic Thought," Quarterly Journal of Economics 49 (1935): 439.

6. A.W. Coats, "The Influence of Veblen's Methodology," Journal of Political Economy 62 (1954): 529-537; A.W. Coats, "Methodological Controversy," pp.61-141; see also D. Seckler, Thorstein Veblen and the Institutionalists, pp.11-21; P.T. Homan, Contemporary Economic Thought, p.175.

well as to his criticism of other systems of economic thought.⁷

Although Veblen's early work on epistemology was a blend of Kant and Scottish common sense philosophy,⁸ he soon adopted an approach that was based on a social psychology which shows links with W.G. Sumner, William James, and instinct theorists such as McDougall.⁹ Veblen's scheme consists of a number of instincts which operate teleologically in that they give the ends of human action and involve the use of intelligence in working out those ends. On the other hand, Veblen does not see human behaviour as simply a matter of rational action toward the ends given by the instincts. What occurs, according to Veblen, is that the instincts give rise to "a more or less extended logic of ways and means" which take on a habitual character and eventually become "institutions;" that is, generally accepted habits of life and thought.¹⁰ In order to understand human action and thought it is necessary to include a consideration of instinctive, cultural, institutional, and habitual forces.

Systematic or theoretical knowledge is, for Veblen, the

7. This highly interrelated nature of Veblen's work has been noted by K.L. Anderson, "The Unity of Veblen's Theoretical System," Quarterly Journal of Economics 47 (1933): 598-626; by L.E. Dobriansky, op.cit., p.386; and by H.A. Innis, "A Bibliography of Thorstein Veblen," Southwestern Political and Social Science Quarterly 10 (1929): 67.

8. T. Veblen, "Kant's Critique of Judgement," Journal of Speculative Philosophy 28 (1884): 260-274. Veblen's Ph.D. thesis also involved Kantian philosophy. See also S.M. Daugert, op.cit., pp.5-25.

9. The development of this later position can be found in the series of essays written between 1892 and 1908 which are reprinted in T. Veblen, The Place of Science in Modern Civilization (New York, 1961).

10. T. Veblen, The Instinct of Workmanship (New York, 1964), pp.1-101. Ayres has argued that Veblen's instincts are simply "culturally significant patterns of behavior that have persisted... to the present," but Veblen is quite clear that instincts are inherited. See C.E. Ayres, "Veblen's Theory of Instincts Reconsidered," in D. Dowd, ed., op.cit., pp.25-37.

result of the promptings of an instinct of "idle curiosity." Idle curiosity is a tendency to the pursuit of knowledge for its own sake, distinterested and non-pragmatic in nature. It works only on the basis of a test of internal consistency and does not itself provide the principles around which data are organised. Knowledge is systematised according to certain postulates or "preconceptions" that are given externally; that are culturally determined. It should be emphasised that, for Veblen, these postulates or preconceptions were a priori and unproveable elements.¹¹

Although, in Veblen's system, knowledge is culture relative and there are no absolute truths, he does develop a definition of "modern science" which serves as the basis for his "genetic economics" and his criticism of other systems of thought. This "modern science" is seen as a result of preconceptions that are an outgrowth of modern culture and the "discipline" of the "machine process." Thus, modern science is also a cultural product, but one which is "post-Darwinian" and runs in terms of an "impersonal sequence of cause and effect" or "cumulative causation."¹²

11. T. Veblen, "The Place of Science in Modern Civilization," and "The Evolution of the Scientific Point of View," reprinted in The Place of Science, pp.1-55. See also N. Kaplan, "Idle Curiosity," in D. Dowd, ed., op.cit., pp.39-55; A.K. Davis, "Thorstein Veblen Reconsidered," op.cit., pp.62-63. While idle curiosity can result in "science," it can just as easily result in myths and legends. The outcome depends on the preconceptions that are used, a point that has not always been well appreciated by commentators. See D. Riesman, Thorstein Veblen (New York, 1953), p.42; T. Parsons, op.cit., pp.435-439; P. Homan, Contemporary Economic Thought, p.136; B. Rosenberg, op.cit., p.31. See also T. Veblen, "Kant's Critique of Judgement," op.cit., p.261; and K. Popper, Conjectures and Refutations (London, 1969), pp.46-48.

12. T. Veblen, "Why is Economics not an Evolutionary Science," reprinted in The Place of Science, p.61; and "The Evolution of the Scientific Point of View" in The Place of Science, pp.36, 54-55.

Veblen goes on to argue that:

In so far as the modern science inquires into the phenomena of life, whether inanimate, brute, or human, it is occupied about questions of genesis and cumulative change, and it converges upon a theoretical formulation in the shape of a life history drawn in causal terms. In so far as it is a science in the current sense of the term, any science, such as economics, which has to do with human conduct, becomes a genetic inquiry into the human scheme of life; and where, as in economics, the subject of inquiry is the conduct of man in his dealings with the material means of life, the science is necessarily an inquiry into the life history of material civilization...Not that the economist's inquiry isolates material civilization from all other phases and beings of human culture.¹³

Such an approach is, in Veblen's view, the correct approach to economics, and this leads to his central argument for a "genetic" or institutional economics. The material civilisation is a "scheme of institutions" which is an "outgrowth of habit." Culture is seen as a

cumulative sequence of habituation, and the ways and means of it are the habitual resistance of human nature to exigencies that vary incontinently, cumulatively, but with something of a consistent sequence in the cumulative variations that so go forward--incontinently, because each new move creates a new situation which induces a further new variation in the habitual manner of response; cumulatively, because each new situation is a variation of what has gone before it and embodies as causal factors all that has been effected by what went before; consistently, because the underlying trends of human nature...by force of which the response takes place, and on the ground of which the habituation takes effect, remain substantially unchanged.¹⁴

What this means is that human affairs can only be properly analysed as the result of a blind causal sequence of habituation.

13. T. Veblen, "The Limitations of Marginal Utility," in The Place of Science, pp.240-241.

14. Ibid., pp.241-242.

For Veblen there is no inner meaning or final end to this process; history does not contain any purpose or ethical trend, and he is deeply critical of those writers who impute such purposes or trends to history.¹⁵ What is more, Veblen also criticises those who analyse economic affairs on the basis of individual rational choice and an assumed institutional framework. While Veblen admits that human actions are teleological, he argues that

it is at the same time no less true that human conduct, economic or otherwise, is subject to the sequence of cause and effect, by force of such elements as habituation and conventional requirements.¹⁶

Behaviour is a cultural product and "varies as the institutional scheme varies," while neo-classical marginalist doctrine deals with conduct "only in so far as it may be construed in naturalistic, teleological terms of calculation and choice," and disregards "the causal sequence of propensity and habituation."¹⁷ Veblen also argued that marginalism relied on a hedonistic theory of motivation, and could not, therefore, deal with human behaviour except in terms of a "response to the stimulus of anticipated

15. T. Veblen, "The Preconceptions of Economic Science," reprinted in The Place of Science, pp.83-179. See also T. Veblen, "Gustav Schmoller's Economics," "The Socialist Economics of Karl Marx, I and II," "Some Neglected Points in the Theory of Socialism," and "Why is Economics not an Evolutionary Science," all reprinted in the same volume. Veblen finds that classical economists, Marx, evolutionary sociologists such as Ward and Spencer, and certain members of the German historical school all guilty of the imputation of purpose.

16. T. Veblen, "The Limitations of Marginal Utility," op.cit., pp.238-239.

17. Ibid., p.239.

pleasure and pain."¹⁸

Veblen's critique of the teleological elements in other systems of thought is also a part of his criticism of the methodology of deduction followed by inductive testing. The use of any teleological preconception tends toward the development of a "ceremonially consistent formula" around it, and this Veblen calls deduction.¹⁹ Deduction is followed by inductive "verification," but Veblen argues that this amounts to little more than comparing the "formula" with

observed permutations by the polariscopic use of the "normal case"...Features of the process that do not lend themselves to interpretation in terms of the formula are abnormal cases and are due to disturbing causes. In all this the agencies or forces causally at work in the economic life process are neatly avoided. The outcome of the method, at its best, is a body of logically consistent propositions concerning the normal relations of things--a system of economic taxonomy. At its worst, it is a body of maxims for the conduct of business and a polemical discussion of disputed points of policy.²⁰

The implication is that a "genetic" economics running in terms of the causal sequence of habituation can deal with the run of facts as they occur, without normalising the data.

From all this it is clear that Veblen desired the development of an economics based on a psychology of instinct and habituation, and the idea of process; on cumulative causation. This economics is seen as capable of being "realistic," in accord with facts, and avoiding the errors of imputing teleological ideas into external reality. It is to run in entirely causal terms. It

18. Ibid., pp.234-235.

19. Ibid., p.237.

20. T. Veblen, "Why is Economics not an Evolutionary Science," op.cit., p.67; T. Veblen, "The Place of Science in Modern Civilization," op.cit., pp.18-20.

stresses the interconnections between habits of life, habits of thought and "culture," and between economic and non-economic phenomena. It is supposedly free from subjective valuations and any immediate concern with policy.

However, Veblen's evolutionary, genetic, economics is not as value free as he sometimes suggests, and it does contain a standard of judgement, a criterion against which both habits of thought and habits of action can be measured. This criterion is introduced in the form of the instinct of workmanship.²¹

The instinct of workmanship is, according to Veblen, a concern with efficient production for use. Workmanship is connected with the state of technology or the state of the industrial arts, and involves a distaste of waste. It relies for its unhindered operation on matter of fact insights, and a concentration on "brute cause and effect" (efficient cause), as any imputation of teleological or spiritual factors (sufficient reason) can only distort man's conception of nature and prevent the development of efficient techniques. Workmanship also applies the systematic knowledge gained under idle curiosity, thus the full expression of workmanship depends on idle curiosity working according to preconceptions that do as little damage as possible to the perception of efficient cause. The unification of theoretical knowledge (higher generalisations) with work-day

21. That the instinct of workmanship is simply Veblen's values in instinctive guise has been pointed out by a number of writers. See A.W. Coats, "The Influence of Veblen's Methodology," op.cit., p.535; and L.E. Dobriansky, op.cit., p.387; for two examples. See also T. Veblen, The Instinct of Workmanship, pp.30-40; and T. Veblen, "The Place of Science in Modern Civilization," op.cit., pp.4-5; T. Veblen, The Theory of the Leisure Class (London, 1949), p.270.

experience (lower generalisations) also depends on this.²²

Veblen argues that the expression of workmanship is vital to the "continued life interests of the community" and utilises workmanship as the "ulterior norm to which appeal is taken."²³ Thus, preconceptions and habits that are not in line with the canons of workmanship may damage the "life interests" of the community. Veblen's genetic theory of economics thus justifies itself, as it is "in consonance with hereditary human nature."²⁴ In this way Veblen modifies his cultural relativism and provides himself with an "objective" standard of judgement.

From the point of view of the later development of institutionalism it is important to note that Veblen's methodological and epistemological position differs in significant respects from that of the German historical school, and his debt to them is limited.²⁵ While both Veblen and the German historicists emphasised the importance of evolution and the study of history and fact, they differ because, (1) the historical school argued that natural science method (which to them meant the development of general laws) was not applicable to social science due to the fact, and variety, of human purpose. Veblen had a somewhat different conception of science and argued that that method was

22. T. Veblen, The Instinct of Workmanship, pp.31-40, 52-81, 85-89; T. Veblen, "The Evolution of the Scientific Point of View," op.cit., pp.32-55.

23. T. Veblen, The Theory of the Leisure Class, p.270.

24. T. Veblen, "The Place of Science in Modern Civilization," op.cit., pp.4-5.

25. L.E. Dobriansky, op.cit., pp.171-172; see also R.V. Teggart, op.cit., who emphasises the influence of the evolutionary sociologists on Veblen. For the opposite view see J. Myles, op.cit., pp.215-220.

applicable to natural and social phenomena, despite the purposeful nature of human action. (2) The historicists argued that subjective value judgements were part of economics, while Veblen argued otherwise. (3) The historicists were interested in solving immediate economic and social problems, while Veblen generally showed little interest in short term practical proposals. (4) The bias of the historicists was towards political, ethical, and legal theories of change, while, as will be seen, Veblen emphasised the role of technical and economic factors.²⁶

II Veblen's General Framework of Analysis.

As noted above, Veblen's theory of economic evolution rests on a social psychology based on instincts and habituation. Besides idle curiosity and workmanship, Veblen also mentions an instinct he calls the "parental bent." This is closely linked to workmanship, and is defined as a concern with the general welfare.²⁷ Veblen does occasionally mention other instincts such as "predatory" or self-regarding impulses, but for the most part these are seen as the result of a distortion or "inversion" of the instinct of workmanship and are reduced to institutional rather than instinctive status.²⁸

26. See J. Myles, op.cit., p.275; D. Seckler, op.cit., pp.14-21; Max Weber, Roscher and Knies, The Logical Problems of Historical Economics (New York, 1975); and L.E. Dobriansky, op.cit.; T. Parsons, op.cit., p.442. Parsons classifies Veblen as a positivist empiricist while the German historical school is seen as taking a "romantic empiricist" line.

27. T. Veblen, The Instinct of Workmanship, pp.25-31, 48, 89-101.

28. In The Theory of the Leisure Class Veblen talks about a "predatory instinct" and an "instinct of sportsmanship," and many authors include these in their list of Veblen's instincts. There are, however, good grounds for omitting them. The Leisure Class was an early work and Veblen was particularly loose in his use of

According to Veblen these instincts were formed during the "savage" era, which was characterised by group solidarity, workmanlike efficiency, unselfishness, and living near the soil. Hence the importance of the instinct of workmanship and the parental bent.²⁹ However, not all races emerged at exactly the same time or under exactly identical conditions. Instinctive endowments may therefore vary between races, workmanship and parental bent being more dominant in some races than in others. Also some races, most notably the European races, are hybrids, and show greater variation in type.³⁰

Because the instincts were formed during the savage era in human history, this era begins with a situation in which

the term instinct; predatory and sportsmanlike instincts are not mentioned in The Instinct of Workmanship, and the existence of such instincts certainly contradicts the description Veblen gave of the peaceable, non-predatory nature of savage society previous to which the instincts were supposed to have formed. Even in The Leisure Class Veblen states that "the instinct of workmanship is an instinct more fundamental, of more ancient prescription, than the propensity to predatory emulation. The latter is but a special development of the instinct of workmanship, a variant relatively late and ephemeral. It is essentially unstable in comparison with the primordial instinct of workmanship out of which it has been developed and differentiated." This relegation of predatory impulses to virtually a non-instinct status allows Veblen to utilise workmanship as his standard of value. On this point see T. Veblen, The Theory of the Leisure Class, pp.29-30, 270; T. Veblen, The Instinct of Workmanship, pp.19-101; T.W. Adorno, "Veblen's Attack on Culture," Studies in Philosophy and Social Science 9 (1941): 405; C.E. Ayres, op.cit., p.33; S.M. Daugert, op.cit., p.89; A.L. Harris, "Veblen as a Social Philosopher," op.cit., pp.6-10. M. Watkins, "Veblen's View of Cultural Evolution," in D. Dowd, ed., op.cit., pp.249-264; A.K. Davis, "Thorstein Veblen Reconsidered," op.cit., pp.60-61; S. Edgell, "Thorstein Veblen's Theory of Evolutionary Change," American Journal of Economics and Sociology, 34 (1975): 269-272.

29. T. Veblen, The Instinct of Workmanship, pp.18-37.

30. Ibid., pp.21-24.

the instincts have free and full play. As mentioned above, instincts are teleological and give rise to a "logic", or system, of ways and means, and the greater the degree of intelligence, the more extended will be this logic. These ways and means take on a habitual character, become traditional, and eventually take on an "institutional character and force," sanctioned by social convention. These habitual and instinctual behaviour patterns can take on connotations of right and proper action and so become "principles of conduct." Conventional ways and means can take the form of "proximate ends of endeavour," and the point can be reached where the real ulterior and instinctive ends are lost sight of, and the proximate ends alone are "present in consciousness."³¹ Institutions are, to Veblen, generally accepted habits of life and thought.

Ways and means, institutions, and principles of conduct, are thus built up out of the promptings of the instincts, but the form these habits and institutions will take also depends on the underlying geographical, economic, and technical conditions. Variation in cultural forms can thus be explained partly by differences in instinctive endowment, and partly by differences in external conditions. While Veblen sometimes utilises the idea of differences in instinctive endowment to explain cultural differences, he rarely relies on this explanation alone, and usually puts more weight on variations in external conditions. All the same a race is "ultimately at the mercy of its instincts."³²

So far this picture is not a fully dynamic one, but Veblen

31. Ibid., pp.6-8. This description has strong similarities with Sumner's ideas.

32. Ibid., pp.1-37, and passim.

had a view of habits and institutions as constantly changing, the system of ways and means having a tendency to become more and more extended. This is the basis of Veblen's idea of the cumulative change of habits and institutions. The institutional framework is never static, but constantly developing and building upon itself. To Veblen there is little reason for supposing that this process will result in "readier, surer, or more facile" expression of man's instinctive nature. Indeed, the opposite is the case. Veblen argued that the growth of habits and institutions generally interfered with, counteracted, or overturned the instincts.³³

history records more frequent and more spectacular instances of the triumph of imbecile institutions over life and culture than of peoples who have by force of instinctive insight saved themselves alive out of a desperately precarious institutional situation.³⁴

Such a perilous situation is unlikely to occur only where

those instincts that make directly for the material welfare of the community, such as the parental bent and the sense of workmanship, have been present...in potent force, or where the institutional elements at variance with the continued life-interests of the community...have been in a sufficiently infirm state...³⁵

The cumulative growth of ways and means, habits and institutions also involves a process of technological change. In Veblen's work there is a two way link between institutions and technology as institutions may help or hinder the expression of workmanship and hence affect the rate of technical advance, while technical changes may bring about alterations in habits of

33. Ibid., pp.10-20.

34. Ibid., p.25.

35. Ibid., p.24.

life and eventually in institutions.³⁶ On occasion Veblen verges on a technological determinism, but in much of his work he avoids definite predictions concerning the future course of cultural change, and refers to many causal factors other than technical change. For instance, legal changes, geographic conditions, contacts with other cultures, and instincts. It also is important to realise that in Veblen's system institutions develop internally, in accordance with their own logic, as well as under the impact of external conditions. Even at his most deterministic Veblen argues that institutions respond to new technical or economic conditions only "tardily and reluctantly."³⁷ Nevertheless, technology is a major dynamic element in Veblen's system, and workmanship and its associated technical advance is his central reference point and value.

It is on this ground that Veblen undertakes his examination of the institutional growth or life history of Western society from the savage era to the "machine era." In this, Veblen's major concern is to show how the process of cumulative institutional growth has resulted in the establishment of certain "predatory" habits and institutions opposed to the expression of workmanship, and, therefore, damaging to the community's welfare. Veblen's argument is that such habits and institutions still dominate American society.³⁸

36. Ibid., passim, and T. Veblen, The Theory of Business Enterprise (New York, 1965), pp.5-19, 302-373; T. Veblen, The Vested Interests (New York, 1919), pp.35-62.

37. T. Veblen, The Instinct of Workmanship, pp.46-48, 52-62, 138-151, 162-168, 202-203, 275-286. See also S.M. Daugert, op.cit., pp.69-70; L.E. Dobriansky, op.cit., pp.227-229; A. Gruchy, Modern Economic Thought, pp.68-79.

38. T. Veblen, The Instinct of Workmanship, pp.24-25, and passim. See also T. Veblen, "The Beginnings of Ownership," "The

III The Contemporary Economic Order and its Weaknesses.

Given Veblen's theory of cumulative and blind causal sequence the institutional structure cannot be assumed to be well adapted to the requirements of workmanship. It is Veblen's view that the institutional structure is the cause of many economic problems. In particular, he finds that a system based on pecuniary self interest and emulative and invidious habits results in wasteful consumption patterns, business cycles, monopoly, the restriction of output, and the operation of the system in the interests of a few and to the detriment of the "common man." In other words "predatory" and "business institutions" conflict with workmanship or "industrial" requirements.

Conspicuous Consumption.

Veblen is perhaps best known for his work on the consumption habits of the "leisure class," which he characterised as "conspicuous waste."³⁹ Under a competitive system there is a tendency for emulative and invidious habits to assert themselves. Work and effort is directed toward self-interest and the emulation of those of higher social rank. Leisure is a mark of social superiority while industrial labour is a mark of inferiority. The goal is wealth, or rather the conspicuous display of wealth, and this gives rise to "wasteful" consumption, imparts an "untoward" direction to industry, and gives "productive labor"

Instinct of Workmanship and the Irsomeness of Labor," and "The Barbarian Status of Women," all reprinted in Essays in Our Changing Order (New York, 1934), pp.32-48, 50-64, 78-96. Veblen's argument can be seen as a reversal of Spencer's. Spencer argued that predatory society had evolved into a peaceable one based on free contract. To Veblen all that had occurred was that predation had taken on a pecuniary form.

39. T. Veblen, The Theory of the Leisure Class, pp.96-97.

a low level of esteem.⁴⁰

Competition therefore does not result in industrial and frugal habits among the "superior pecuniary class," as "failure to consume in due quantity and quality becomes a mark of inferiority and demerit."⁴¹ What is more

As increased industrial efficiency makes it possible to procure the means of livelihood with less labor, the energies of the industrious members of the community are bent to the compassing of a higher result in conspicuous expenditure, rather than slackened to a more comfortable pace...the increment of output is turned to use to meet this want...⁴²

For Veblen the institution of a leisure class and the emulative and invidious habits that surround it "hinders cultural development" by absorbing surpluses over substance, maintaining a highly unequal distribution of income, providing a "prescriptive example of conspicuous waste" to others, and by the inertia and conservatism "proper to the class itself."⁴³ The analysis of the leisure class is linked to Veblen's broader analysis of pecuniary or business institutions and their opposition to "industry."

Business Cycles.

Veblen's analysis of the conflict between business and industry can be divided into three major parts. The first deals with a system of competitive markets, the second with a system of more monopolised markets, and the third with the gradual separation of ownership, financial control, and management from technical competence.

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40. T. Veblen, The Theory of the Leisure Class, pp.28-67.
 41. Ibid., p.74.
 42. Ibid., p.111.
 43. Ibid., p.205.

For Veblen the competitive system is one in which investment and production are carried on for profit, and industrial plant and natural resources are capitalised on the basis of their profit yielding capacity. Businessmen have developed a concept of "normal" or "ordinary" profit which serves as a reference point in determining "normal times," "brisk times," or "dull times." Prices are set by a process of "competitive production" interacting with the level of demand. Each firm attempts to reduce costs under competitive pressure. Money is the standard unit of account and there is a presumption of stability in the value of the money unit. Machine technology is in general use and business concerns are specialised and interrelated. Thus, any disturbance in one sector moves rapidly to other sectors.⁴⁴

So far this treatment is fairly orthodox, but several extra dynamic elements were added by Veblen, the first of these being a tendency to extend the use of credit and the corporate form of enterprise. It is important to note here that what Veblen was concerned with was the extension of credit to "going concerns" over and above their initial capital requirement. Such extensions of credit Veblen saw as of the type that carried fixed interest charges. That is bank loans, commercial paper, or fixed interest securities.⁴⁵

Veblen argued that both the adoption of the corporate form

44. T. Veblen, Absentee Ownership (New York, 1923), pp.72, 98-99; T. Veblen, Business Enterprise, pp.22-28, 86-91, 105.

45. Veblen tends to lump such things as "notes, stock, interest bearing securities, deposits, and call loans" together. See T. Veblen, Business Enterprise, p.92. See also J.B. Dirlam, "The Place of Corporation Finance in Veblen's Economics," in D. Dowd, ed., op.cit., p.201.

of enterprise and the tendency to extend the use of credit were not things that simply grew out of the development of large scale technologies and larger capital requirements. To Veblen the use of credit was extended because it was profitable and the corporate form was adopted because of the opportunities for credit extension that it gave. Veblen was also at pains to point out that new credit in no way represented additions to material capital or productive equipment. For Veblen this "extension" of credit was simply an addition to the purchasing power of the business concerned.⁴⁶

Veblen argues that credit extensions represent simply a transfer of funds. For instance, when dealing with security issues Veblen states:

What is transferred in the transactions by which the savings are taken over into corporate capital is commonly some form of credit instrument; and the transaction results in an augmentation of the value of outstanding credit instruments. Whether there are any physically useful goods anywhere held in store back of these funded savings...is an open question, with the presumption running strongly to the contrary.⁴⁷

Similar arguments are applied to unsecured bank loans, loans on collateral, and commercial paper. Credit is an addition to "pecuniary capital" which cannot serve as "material (industrial) capital."⁴⁸

Extensions of credit are an advantage to the business because they allow a more rapid turnover of the firm's capital and:

...all these advances afford the borrower a differential

46. T. Veblen, Absentee Ownership, pp.82-83; and T. Veblen, Business Enterprise, p.99.

47. T. Veblen, Absentee Ownership, pp.87-90.

48. T. Veblen, Business Enterprise, pp.101-103.

advantage in bidding against other business men for the control and use of industrial processes and materials, they afford him a differential advantage in the distribution of the material means of industry; but they constitute no aggregate addition to the material means of industry at large. Funds of whatever character are a pecuniary fact not an industrial one.⁴⁹

Credit extension affords the businessman such advantages as long as the cost of borrowing is below the "normal" rate of profit, and Veblen argues that this is the usual case. As, to Veblen, "whatever is generally advantageous becomes a necessity for all competitors," the extended use of credit becomes generalised and competitive. Such competitive use of credit means that the earnings of any particular enterprise can be only "slightly larger" than would be the case without a general recourse to credit. Nevertheless, no single enterprise could give up the extended use of credit and still earn "reasonable returns."⁵⁰

Credit extension thus has little or no effect on the overall general level of profits, although the competitive use of credit may tend to alter the pattern of the ownership of the material means of production.⁵¹ One other major effect of credit extensions is that of inflation. The price of material equipment, land, natural resources, and labour all being bid up by the increase in the purchasing power of businesses. This, in time, similarly affects output prices.⁵²

49. T. Veblen, Business Enterprise, pp.95, 104.

50. Ibid., pp.92-99.

51. Ibid., pp.98, 104. That is if credit is used to buy or lease industrial plant.

52. Ibid., p.105; and T. Veblen, Absentee Ownership, pp.86-87.

In Veblen's analysis this inflationary movement can continue for as long as markets are buoyant. The inflation raises asset prices, and, as businessmen suffer from money illusion, these inflated values serve as the basis for further credit extensions, and so on. Veblen can thus argue that the competitive system in its corporative form has a tendency to speculative and inflationary upsurges.⁵³ The buoyancy of markets is assured during the early competitive period by growing population, growing markets, and the increasing number of competing industrial uses for industrial resources.⁵⁴

There is, however, a second dynamic element in Veblen's analysis that tends to work in the opposite direction: that of competitive pressure resulting in the adoption of more efficient technology, tending to increase output and lower prices. All the same, the effect of new technology on output prices was, according to Veblen, not of great importance throughout most of the competitive era due to the rapid expansion of markets, but there came a point when markets could no longer expand fast enough. When this point was reached industry became "excessively productive--beyond the needs of business," and the effect was falling output prices.⁵⁵

53. T. Veblen, Absentee Ownership, pp.90-91. See also T. Veblen, "Credit and Prices" in Essays in Our Changing Order, pp.114-131. This essay marked the parting of the ways for Veblen and J.L. Laughlin over their views on credit. See J. Dorfman, Thorstein Veblen, pp.257-8. This idea of cumulative inflationary upsurges due to credit extensions Veblen attributes to K. Knies' Geld und Credit. T. Veblen, Business Enterprise, pp.104-108.

54. T. Veblen, Absentee Ownership, pp.74-75.

55. T. Veblen, "The Overproduction Fallacy" in Essays in Our Changing Order, pp.104-113. See also J. Dorfman, Thorstein Veblen, pp.86-87. This essay was one of those early essays that so impressed J.L. Laughlin and persuaded him to take Veblen to Chicago. Another essay that Laughlin appreciated was Veblen's

The problem here is twofold. First the concern is saddled with a burden of overhead interest charges that have to be met even in dull times, and second with falling output prices the inflated money values of the assets become larger than the value of the same assets when capitalised on the basis of presumptive earning capacity. When this discrepancy becomes "patent" a period of liquidation begins together with the withdrawal of credit and a re-rating of aggregate capital. At this lower level of output and prices credit extension starts all over again. Thus the combination of the speculative use of credit and technical change leading to "underconsumption" result in the competitive business system becoming cyclical and intermittent in character.⁵⁶

The competitive system thus becomes characterised by a periodic speeding up accompanied by inflation, and followed by a period of liquidation and depression as a direct result of the institutions of credit and competitive profit seeking. Now, Veblen goes on to argue that this competitive system has within it the seeds of its own transformation. The cyclical nature of the system leads businessmen to attempt to establish some type of "differential advantage" over their competitors. Such advantages will allow the business a degree of control over its markets and a degree of freedom in fixing prices and output, thus enabling the maintenance of profit rates. Veblen mentions

early attempts to come to grips with the concept of capital, see "Böhm-Bawerk's Definition of Capital and the Source of Wages," in Essays in Our Changing Order, pp.132-136.

⁵⁶. T. Veblen, Business Enterprise, pp.109-113; T. Veblen, Absentee Ownership, pp.91-100.

various ways in which this can be done such as through advertising, brand names, salesmanship, patent rights, the gaining of franchises, and through takeovers, consolidations, and the attempt to "control some large portion of the industrial system."⁵⁷ Veblen devotes most attention to the process of mergers, takeovers, and consolidations, as it is from this that the "new order" of business emerges.⁵⁸

Monopoly and Sabotage.

In Veblen's view the establishment of any differential advantage, by whatever means, results in the earning capacity of the concern that has the differential advantage being greater than would otherwise be the case. In other words this extra earning power cannot be attributed to the earning power of the tangible assets alone. From this the notion of "intangible property" arises.⁵⁹

To Veblen intangible property represents an "unearned" or "free" income:

tangible assets...are such assets as represent the earning-capacity of any mechanically productive property; whereas intangible assets represent assured income which cannot be assigned to any specific material factor as its productive source... Such income arises out of business relations rather than out of industry;...it represents no contribution to the output of goods and services, but only an effectual claim to a share in the "annual dividend"... The returns on intangible assets are a return for the exercise of certain immaterial relations involved in the ownership and control of industry and trade.⁶⁰

57. T. Veblen, Business Enterprise, pp.20-65, 133-176, 255-267; T. Veblen, Absentee Ownership, pp.205-250, 284-397; T. Veblen, The Vested Interests, pp.35-113.

58. T. Veblen, Absentee Ownership, pp.205-250.

59. T. Veblen, The Engineers and the Price System, (New York, 1965), p.69; T. Veblen, Business Enterprise, pp.54-55.

60. T. Veblen, The Vested Interests, pp.69-72; and T. Veblen,

Veblen defines the extra earning power of intangible property as a "vested interest," and argues that such interests have increasingly gained recognition as "articles of private property defensible at law."⁶¹

This idea of intangible assets and "free income" allows Veblen to argue that those who own and control the firm will be interested in increasing the value of the firm's intangible assets rather than operating the industrial equipment efficiently.⁶² In order to create new intangibles businessmen engage in a struggle for control which may involve attempts to inflict financial damage on rivals, or the "tactical" buying or selling of companies with no thought given to the long term interest of the concerns involved. The development of stock markets also opens the possibility of gains from insider dealings and other financial manipulations. These activities and the resulting tendency to monopolisation are in conflict with the interests of the community and, on occasion, with the interests of a particular firm as a "going concern." Conflicts may also arise between

"On the Nature of Capital," in The Place of Science, pp.324-351. Veblen also includes technological knowledge as an intangible. Technological knowledge previously was owned by the community at large, but with increasing refinement, specialisation, and the development of patent laws, technological know-how can be owned.

61. T. Veblen, The Vested Interests, pp.60, 100-102.

62. T. Veblen, Business Enterprise, pp.159-174. This part of Veblen's argument is often confusing as he defines the "owners" of a firm's industrial equipment as the debenture and preferred stock holders, while the "managers" are the common stock holders. It is worth noting that Veblen's analysis does not imply a separation of ownership from management or control as that is usually understood. Compare C.G. Leathers and J.C. Evans, "Thorstein Veblen and the New Industrial State," History of Political Economy 5 (1974): 425 with F.G. Hill, "Veblen, Berle, and the Modern Corporation," American Journal of Economics and Sociology 26 (1967): 282. See note 67.

different business groups working at cross purposes.⁶³

This, however, is not the end of the story, as the financial requirements of mergers and takeovers result in the development of the "captain of solvency" or "captain of finance" who is usually identified with a finance house or investment bank. The captain of finance is paid in the form of a block of the new corporation's securities, and this, and his control over credit resources, gives him a high degree of control over significant parts of the economic system.⁶⁴

Veblen argues that consolidations and takeovers were particularly widespread in the case of certain "key industries." These industries include the natural resource, power, fuel, transportation, and steel industries. Veblen notes that these industries had been left in particularly poor financial shape due to their growth under conditions of expanding markets, and their inability to adjust to more restricted market conditions except through "cutthroat competition," "such as to entail a present and prospective decline of their earning capacity."⁶⁵ These industries' need for extra credits was utilised by the operators and their financial or banking companies. The effective management of these key industries was, once the consolidation had gone far enough,

...taken out of the hands of corporation managers working in severalty and at cross purposes, and... lodged in the hands of that group of investment bankers who constitute in effect a General Staff of financial strategy and who between them command the

63. T. Veblen, Business Enterprise, pp.159-174.

64. T. Veblen, Business Enterprise, pp.127-130, 172-174;
T. Veblen, Absentee Ownership, pp.330-345.

65. T. Veblen, Absentee Ownership, pp.229-250, 334-339.

general body of the country's credit resources.⁶⁶

There is, at least in Veblen's later work, no widespread or particularly important conflict of interest between the financier and other owners or creditors. Once the system becomes sufficiently consolidated the process of creating new intangibles becomes routine, and works to the benefit of all of those involved.⁶⁷ Veblen notes that, as the owners of the

66. Ibid., pp.338-339. The notion of key industries and that of the predominant role of credit institutions appears only in the later of Veblen's works such as Absentee Ownership.

67. Ibid., pp.326-333, 374. Veblen, particularly in Business Enterprise, attempts to separate the returns on the industrial equipment from the return on intangible assets, and relates this to the gearing of a company. In Business Enterprise, common stock "represents" intangible assets while preferred stock and debentures "represent" tangible assets, the implication being that the returns on intangibles are paid out as a return on the common stock while preferred stock and debenture holders gain the returns on the industrial equipment. This also forms the basis of a potential conflict of interest in that in Business Enterprise the holders of preferred stock and debentures have an interest in the operation of the company as a "going concern" which the holders of the common stock, who have legal control of the company, may not share if they obtained the common stock simply to make an advantageous sale via stock market manipulation. In later work, however, Veblen tends to suggest that the returns from intangibles are channelled to "Absentee Owners" through their holdings of fixed interest securities which are, in the amount issued, related to the size of the intangible assets. This reverses the above position, but in Absentee Ownership Veblen appears to largely abandon any attempt to identify the returns from particular types of assets with particular types of stocks or securities. The implication in Absentee Ownership is that absentee owners hold both common and preferred stock and debentures. This, of course, means that the conflict between the owners and creditors of a firm that Veblen analyses in Business Enterprise is no longer relevant, and, indeed, such conflicts drop out of sight in his later work. In Absentee Ownership the speculative purchase and sale of stock is only undertaken by knowledgeable "outsiders" rather than by the operators themselves as is suggested in Business Enterprise. Conflicts between different interests are also given substantially more space in Business Enterprise than in Absentee Ownership, where such conflicts are passed by in one paragraph. In Absentee Ownership the emphasis is very much on the community of big business interests, although it is allowed that some conflicts may occur in the process of consolidation. Much of the confusion between Veblen's various books on these issues is clearly related

corporation and also frequently the owners of the finance house,

...the same "Interest"--that is to say the same group of absentee owners working together as a team in pursuit of gain--will not infrequently be found to be the dominant owners on both the debit and the credit side of a given account; both within a given financial banking house or group of affiliated banks and in the greater owners of the corporations whose credit and securities are taken care of by the given banking house and its affiliated banks.⁶⁸

The extension of credit does not, however, stop with consolidations or with the "key industries." As before, such extension of credit allows a corporation a competitive advantage over others which do not so extend their credit. It increases the corporations purchasing power and allows it to "trade on a thinner equity."⁶⁹ Again, it is therefore to the advantage of all firms whether through mergers or otherwise to fully capitalise their intangible assets:

but it also follows that by this competitive recourse to credit these business concerns...become clients of the dispensers of credit and are loaded approximately to capacity with suitable overhead charges payable to the absentee holders of their paper, whether in the form of commercial credits or of corporation debentures.⁷⁰

to his attempt to carry the distinction between "business" and "industry" right through into the area of company accounts and finance. T. Veblen, Business Enterprise, pp.136-176; T. Veblen, Absentee Ownership, pp.342-362; T. Veblen, The Vested Interests, pp.99-102. This contradiction between Business Enterprise and Absentee Ownership led to some peculiar interpretations of the latter book in terms of the former. See for instance W.C. Mitchell in a letter to W.Z. Ripley dated December 1936, quoted by J. Dorfman, "New Light on Veblen," in T. Veblen, Essays, Reviews and Reports (Clifton, 1973), pp.171-172. See also F.G. Hill, "Veblen, Berle, and the Modern Corporation," op.cit., pp.281-181.

68. T. Veblen, Absentee Ownership, p.362.

69. Ibid., pp.356-358.

70. Ibid., p.358. Once a large population of business concerns come to be dependent on "these dispensers of credit for the means of commercial subsistence and salvation" the economic system

There is thus a tendency throughout the economic system to extend the use of credit, and this turns many more firms into debtors of the finance houses or investment banks. This further extension of credit thus becomes widespread and has the same inflationary effect as before; the inflation allowing further credit extensions, usually debenture issues, on the basis of the increased money value of the business assets. In the case of a concentrated or monopolised system, however, this will not lead to any eventual liquidation. This is because the monopoly elements or collusive action results in a restriction of output and technical advance which keeps prices sufficiently high.⁷¹

The money value of a company's assets thus has no tendency to outstrip the company's capitalised earning capacity. Under this system there appears to be nothing to prevent a steady inflation of values linked with a steady increase in the value of outstanding credit, as long as business can operate and maintain a level of "sabotage" on industry and technical change. The result is a continual and increasing level of unemployment and under utilisation of resources.⁷² As P. Sweezy puts it "on a business level" monopolisation brought relief from the effects of cyclical

becomes, in Veblen's terms, a "credit economy." Veblen openly acknowledges that he borrows this term from the German historicists. See T. Veblen, Business Enterprise, p.133, and Absentee Ownership, p.364.

71. T. Veblen, Absentee Ownership, pp.359-361, 369-374; and T. Veblen, The Engineers and the Price System, pp.1-26. This is not to say that technical advance and cost reduction is entirely stopped. Veblen argues that technical advances do occur even under such a monopolised system, but that they are never allowed to go far enough to disrupt the basis of this "credit economy." In practice, then, prices may be stable over some periods of time, and rise slowly in others. Veblen calls this restriction of output and technical advance "sabotage" or the "conscious withdrawal of efficiency." See T. Veblen, Absentee Ownership, pp.251-283.

72. T. Veblen, Absentee Ownership, pp.371-372.

depressions, "while on the industrial level it produced a persistent underutilisation of human and material resources."⁷³

The whole economic system is thus operated to the advantage of, as Veblen puts it, "the One Big Union of Financial Interests." The control of the system is maintained through the credit system and through the influence of the "key industries" over the rate of production in the rest of the economy. The investment bankers have a high degree of control because:

by force of this endless network of credit that ties up the business concerns of the country in an interdependence of fiscal give and take, they are at the same time, each in his degree, large and small, tied in under the paramount fiscal jurisdiction of these keepers of the country's credit resources, as clients whose fortunes are forever in the balance and whose continued good fortune is conditioned on their continuing to be lucrative clients.⁷⁴

It is also worth noting that Veblen tied the Federal Reserve into this system, its major function being one of "adding

73. P. Sweezy, "Veblen on American Capitalism," in D. Dowd, ed., op.cit., p.185.

74. T. Veblen, Absentee Ownership, pp.349-354, 356-358, 360-364, 374-385. It should be noted that the existence of the One Big Union of Interests did not totally do away with competition between interests. Veblen argues, however, that the control exercised by the banking community and the joint interest in a stable or rising price level leads to competition being confined to those areas that will not upset the price level. This position which is set out in Absentee Ownership is in contrast to that in Business Enterprise. In the earlier book Veblen sometimes appears to suggest that the competition among interests struggling for greater control led to speculative manipulation of the stock markets, attempts to damage the business of other concerns, and industrial derangement. In the later work it is the collusive "sabotage" of the system by the concentrated action of the interests that leads to restriction of output, and the role of conflict between businessmen is played down. The competition of interests belonging to different nations is still treated as a possibility in the later work. Compare T. Veblen, Absentee Ownership, pp.349-397 with Business Enterprise, pp.29-45, 133-176. It does, however, appear that in dealing with these conflicts Veblen was dealing with the processes involved in a merger wave. Thus, once a degree of consolidation is achieved a greater unity of interest arrives.

materially to the security" of paper money issues and thereby helping the centralisation, cooperation, and stability of the banking and financial system.⁷⁵

The key industries are also important as it is through the control of these industries that the "interests" are enabled to control the volume of output throughout the system:

It is after all in the Key Industries...that the administrative center of this system of industrial business traffic lies; just as its executive center lies outside the industrial system proper, in the massive credit institutions of the fiscal metropolis. And it is on these Key Industries...that the dominant Interests of the One Big Union rest their weight of absentee ownership and pivot the sweep of their industrial dominion. The Key Industries...set the pace and govern the practicable rate and volume of employment and output for the industrial system at large...This guidance of industrial affairs is all... an undesigned and fortuitous by-product of the steadfast pursuit of their own advantage by those Interests that do business in the key industries.⁷⁶

Competition under this regime is reduced to non-price competition, most notably advertising. This exercise of "salesmanship" may lead to the purchase of one brand rather than another, but Veblen maintains that it will not affect the level of total demand. The market is a "closed" one with only a certain volume of purchasing power available. Expenditure on salesmanship does, however, utilise resources in a "non productive" way in the pursuit of business ends rather than industrial ends, raise costs and reduce the margin between sales price and production cost. As it is from this margin that the "overhead

75. T. Veblen, Absentee Ownership, pp.369-371. Despite this consideration of the Federal Reserve System it is not at all clear exactly how all this credit is being generated. In Veblen's system there appears to be no limit to credit extensions.

76. T. Veblen, Absentee Ownership, pp.386-387.

charges" on invested capital must be paid, then there must be a reduction in production cost in order to maintain the margin. Advertising becomes a necessity in this restricted market system, and there is a resulting tendency to reduce production costs via reducing wages or employment.⁷⁷

These tendencies of restricting output, and employment, and steady inflation, will meet some resistance from the work force, particularly the unionised work force, but Veblen argues that the type of action undertaken is also conditioned by the business system. Unions, to Veblen, tend to utilise similar business principles and attempt to raise wages via the establishment of their own vested interests through their own "conscientious withdrawal of efficiency," that is, by strikes.⁷⁸ Veblen is clear that unions have the weaker hand, not only are they fighting powerful adversaries, but they are being constantly "left behind" due to the persistent rise in prices. It is, thus, all unions can do to keep up in money terms, while through advertising and salesmanship the psychological or "moral" subsistence level is constantly being raised. Veblen further points out that while union tactics are firmly based on business principles they do not have equivalent standing at law. The workmen have no "enforceable absentee rights and powers, and they have been unable to capitalise their income into fixed overhead charges on industry, collectable in absentia." Thus, while

77. Ibid., pp.284-325, 384-386, 391-394.

78. Ibid., pp.394-395, 401-414; see also T. Veblen, "Farm Labor and the I.W.W.," reprinted in Essays in Our Changing Order, pp.319-336; T. Veblen, The Engineers and the Price System, pp.1-26; T. Veblen, The Vested Interests, pp.163-183.

unions can be found guilty of conspiracy, absentee owners working in collusion as stockholders of a company cannot. The only weapon of employees is to do as little work as possible for their wages. Thus industrial "sabotage" becomes established on both sides of industry with consequent adverse effects on output.⁷⁹

From all this it is clear that Veblen viewed the corporate business system as evolving from a competitive stage characterised by business cycles and depressions, to a period of merger and consolidation, characterised by a wide degree of discretionary control being exercised by the "absentee owners" and investment bankers. This One Big Union of interests controls the level of output and price for its own advantage. The result is a growing degree of "sabotage" undertaken by both sides, and the restriction of output and employment. The interests of the absentee owner, expressed through their legal control and their claims to "free income," are in direct opposition to those of the "common man."

Of course, this system, too, possesses elements that tend to lead to a change. The price inflation and restriction of output cannot go on indefinitely, as after a time such actions become self-defeating. If the level of output is depressed too much then the absentee owners have a smaller volume of output from which to draw their free income. To Veblen, businessmen

79. T. Veblen, Absentee Ownership, pp.394-395, 401-416, 431-437; and T. Veblen, The Engineers and the Price System, pp.1-26. See also L. Ardzrooni, "The Philosophy of the Restriction of Output," The Annals of the American Academy of Political and Social Science 91 (1920): 70-75.

tend only to be interested in the short term, hence this long term problem will not alter their behaviour.⁸⁰ They will depress output and employment to its practicable minimum, and action will be undertaken to protect "national integrity," that is the imposition of tariffs and other barriers to trade and free movement of factors, which reinforce the restrictive nature of the control by large vested interests.⁸¹

Imperialism is also a possibility according to Veblen. Imperialism being the attempt to develop sources of unearned income out of the national product of other countries. What is more, the activities of business both at home and abroad are given the full support of government, which to Veblen,

may be counted on to lend...unwavering support to all manoeuvres of business-as-usual, and to disallow any transgression of or departure from business principles...The drift of workday discipline, as well as of deliberate instruction sets in the conservative direction. For the immediate future the prospect appears to offer a fuller confirmation in the faith that business principles answer all things...This businesslike control of the industrial system... will result in a progressively widening margin of deficiency in the aggregate material output and a progressive shrinkage of the available means of life.⁸²

The Engineers and the Price System.

Veblen's analysis also involved the idea that as the business system developed so those with control over industry became more and more removed from the technical or engineering aspects

80. T. Veblen, Absentee Ownership, pp.422-423.

81. Ibid., pp.422, 438-444; T. Veblen, The Vested Interests, pp.114-157; and T. Veblen, "Review of J.A. Hobson's Imperialism," reprinted in Essays, Reviews and Reports, pp.508-511.

82. T. Veblen, Absentee Ownership, p.445; T. Veblen, "Review of J.A. Hobson's Imperialism," op.cit., pp.508-511; and T. Veblen, "Outline of a Policy for the Control of the Economic Penetration of Backward Countries," in Essays in Our Changing Order, pp.361-382.

of the concerns they controlled. This development Veblen saw as a result of both the increasing complexity of technology and the increasing complexity of financial management.⁸³

In Veblen's earlier work the key figure is the "captain of industry," an entrepreneur who, while concentrating on the business aspect of his concerns, had some knowledge of the technical processes involved, and was actively engaged in the management of his companies. With the arrival of the financier and the "captain of finance," ownership became "absentee" in the sense of being completely removed from technical competence or technical management.⁸⁴ Thus, "absenteeism" in Veblen's sense does not necessarily imply absence from financial management or control, but simply an absence from technological management or expertise. The captains employ technical experts to look after the industrial side of management, with the result that:

captains of finance, driven by an increasingly close application to the affairs of business, have been going farther out of touch with the ordinary realities of productive industry, and...have also continued increasingly to distrust the technological specialists whom they do not understand, but whom they can also not get along without.⁸⁵

Although the engineers or technical experts are "as yet" quite content to serve the interests of the absentee owners,⁸⁶

83. T. Veblen, The Engineers and the Price System, pp.33-34.

84. Ibid., pp.32-38, 156-157. Absenteeism does not therefore connote a separation between ownership and management as is usually understood. Veblen is quite clear about his definition of absenteeism and states that "an owner who is employed in the industrial use of a given parcel of property owned by him, will still be an 'absentee owner,' within the meaning of the term, in case he is not the only person habitually employed in its use."

85. Ibid., pp.63-64.

86. Ibid., pp.135-137.

Veblen raises the possibility of an "overturn" involving the abdication of the technically incompetent owners and the establishment of a "soviet of technicians," who would operate industry on a technical rather than a commercial basis, and maximise production.⁸⁷

Veblen varied in the extent to which he thought such an "overturn" was a real possibility. In his earlier work he tended to a more deterministic position which closely linked the habits of life imposed by the discipline of machine technology to changes in habits of thought which would lead the engineers to realise the wastefulness of the system and to take action,⁸⁸

87. Ibid., pp.138-169. Veblen's ideas on how a desirable economic system would be organised are extremely vague, so much so that it seems a largely pointless exercise to attempt to label his ideas "socialist," "technocratic," "elitist," "anarchist," or "syndicalist" as several authors have done. Elements of all these positions can be found in Veblen. For an outline of Veblen's main ideas see especially T. Veblen, The Engineers and the Price System, passim; but several of Veblen's essays should also be considered, most notably those reprinted in Essays in Our Changing Order, such as the war essays "Farm Labor for the Period of the War;" "Menial Servants During the Period of the War;" "The Passing of National Frontiers;" "A Policy of Reconstruction;" "Peace;" "Bolshevism Is a Menace--To Whom,;" and "Between Bolshevism and War." For various views of Veblen's political position see R. Tilman, "Veblen's Ideal Political Economy and its Critics," American Journal of Economics and Sociology 31 (1972): 307-317; H.J. Hodder, "The Political Ideas of Thorstein Veblen," Canadian Journal of Economics and Political Science 22 (1956): 347-357; D. Bell, "Thorstein Veblen and the New Class," The American Scholar 32 (1963): 616-638; R. Tilman, "Thorstein Veblen, Incrementalist and Utopian," The American Journal of Economics and Sociology 32 (1973): 155-169; R.V. Teggart, op.cit., pp.107-109; P.M. Sweezy, "The Influence of Marxian Economics on American Thought," op.cit., pp.473-477; J.A. Hobson, Veblen, pp.66-86; L.E. Dobriansky, op.cit., p.389; D. Riesman, "The Social and Psychological Setting of Veblen's Economic Theory," op.cit., pp.449-461; P. Morrison, "The Ideology of the Engineers," in D. Dowd, ed., op.cit., pp.237-248.

88. Compare the treatment given in Business Enterprise where Veblen talks of the "natural decay of business enterprise," and the less deterministic position taken in The Engineers and the Price System, pp.133-137.

but in his later work the "soviet of technicians" is presented only as a possibility and is utilised more as a polemical device. In Veblen's last major work, Absentee Ownership, there is no mention of a possible overturn.

Nevertheless, it is clear that Veblen thought that most economic problems could be solved if only the operation of industry could be freed from the power of business and business principles; if only habits of thought, and legal principles could be altered to match the modern era. Economic problems were, to Veblen, due to the prevalence of outmoded or "idiot" institutions.

IV Veblen and Institutionalism.

Veblen is often regarded as the founding father of institutional economics and his work does have key importance in the development of the institutionalist movement. Of particular importance in this respect are his criticism of conspicuous consumption as wasteful, his view that "salesmanship" only serves to increase costs for the consumer, his analysis of intangibles and monopoly power as a pervasive and integral part of the operation of the system, and his dichotomy between business or pecuniary institutions and industrial or productive requirements. Veblen's emphasis on profit expectations as a cause of cycles in a competitive system can also be found in the work of later writers,⁸⁹ and it has been suggested that Veblen's ideas concerning the separation of ownership from technical competence and the employment of technical experts in some ways shows an anticipation

89. See below chapters 5 to 9.

of Galbraith's analysis of the "technostructure."⁹⁰ On the other hand, Veblen's work contains a number of difficulties, and later institutionalists did not accept Veblen's views on all issues.

The most obvious of the difficulties with Veblen's work concerns his use of instinct theory, his downplaying of the role of human will and purpose, and his methodology. Veblen's definition of instincts is entirely arbitrary, and it provides a highly idealistic picture of man's basic nature. Veblen's somewhat idyllic view of savage society was based on contemporary sources such as Morgan, but increasingly such views were challenged as was the whole notion of instinctive endowments.⁹¹ This has particular importance in Veblen's work as his "objective" standard of judgement, his epistemology, and much of his critique of contemporary institutions rests on this instinct theory.

Veblen's view of evolution as a causal sequence of habituation which is not purposefully directed, and his view of scientific knowledge as "idle" and non-pragmatic severely

90. See particularly C.G. Leathers and J.C. Evans, op.cit., p.425. It should be noted that Leathers and Evans tend to understate the differences between Veblen and Galbraith. Galbraith's technostructure operates independently of owners and bankers but within a commercial system. Such an arrangement is inimical to Veblen's thinking, who would have the engineers do away with the business system. Nevertheless, Veblen was one of the first writers to mention the bureaucratisation of business management.

91. See for instance McDougall, "The Use and Abuse of Instincts in Social Psychology," Journal of Abnormal Psychology and Social Psychology 16 (1921): 285-333; J.R. Kantor, "The Problem of Instinct and its Relation to Social Psychology," Publications of the American Sociological Society 21 (1927): 71-81; F. Ellsworth, "Are Instincts Data or Hypotheses," American Journal of Sociology 27 (1921): 184-196; L.L. Bernard, "The Misuse of Instincts in the Social Sciences," Psychological Review 28 (1921): 96-119; F.B. Karpf, op.cit., pp.318-413.

reduces the role of human will or purpose, and provides little or no room for conscious efforts at reform. Most of those who were influenced by Veblen were interested in reform and, therefore, desired to give human purpose a larger role in the direction of the system.

There are also considerable difficulties in Veblen's methodology, particularly in his definition of "modern science." The definition Veblen uses concerns the absence of teleological preconceptions and the use of the notion of cumulative causation. While it is easy to agree with Veblen's criticism of those who would impute a progressive or spiritual trend into history itself, his criticism of marginalist doctrine is much less convincing, particularly given the importance Veblen himself attached to self-interested behaviour. Indeed, most of Veblen's substantive analysis of consumer and business behaviour is not incompatible with orthodox techniques of economic analysis,⁹² and the observation that institutional growth is an unintended consequence hardly justifies Veblen's criticisms of those techniques. The provision of a genetic "life history" of institutions and habits fails to add to the understanding of present structural relationships. The only contribution of the "genetic method" is to give Veblen a supposedly "scientific" basis for his polemical attacks on "business" institutions, and his occasional and untestable prophecies concerning the future course of institutional change.

92. This point is raised by J.A. Hobson, op.cit., pp.36-50; see also H. Leibenstein, "Bandwagon, Snob, and Veblen Effects in the Theory of Consumer Demand," Quarterly Journal of Economics 64 (1950): 183-207.

Veblen's test for a theory is that it be capable of dealing with the run of facts or events without resorting to the use of the "normal case" or explanations involving "disturbing causes." This position virtually denies abstraction any useful role, and is undoubtedly partly to blame for the highly descriptive approach taken by many of those influenced by Veblen.

Compounding these difficulties is the fact that, despite his empiricism, Veblen's use of empirical material is often casual in the extreme and compromised by his polemical intent.⁹³ Although Veblen's methodology was to have some influence among institutionalists it was usually modified in some way or other.

Institutionalists, then, cannot be regarded as simply Veblenians, as no later writer took over Veblen's ideas in an unaltered form.⁹⁴ Later institutionalists abandoned instinct theory, were influenced by the case-study methods being developed in sociology, moved away from a concern with historical stages or origins, and were deeply influenced by the work of John Dewey, who provided an alternative epistemological foundation based on a version of behaviourism that was consistent with a view of the process of habituation as more creative and purposeful. Dewey's pragmatism has links with Veblen's concept of workmanship, but Veblen cannot be accurately described as a pragmatist. Veblen's view of systematic knowledge as idle and his emphasis on blind causal sequence are completely opposed to the pragmatic

93. L.E. Dobriansky, op.cit., pp.25-69, 216-288.

94. M. Lerner, "What is Usable in Veblen," The New Republic 83 (1935): 7-10; W.C. Mitchell, ed., What Veblen Taught (New York, 1936), pp.vii-xlix; J. Dorfman, The Economic Mind in American Civilization, 4: 434-455; A. Gruchy, Modern Economic Thought, pp.123-131; D. Dowd, Thorstein Veblen, pp.131-158; C.E. Ayres, "The Legacy of Thorstein Veblen" in Institutional Economics, pp.45-67; J. Dorfman, "The Source and Impact of Veblen," op.cit., pp.6-12.

point of view.⁹⁵

For Dewey knowledge was problem-centred and instrumental in nature. He warned against the "isolation of intellectual activity from the ordinary affairs of life," and sought to maintain the "practical and moral bearing" of such activity.⁹⁶ It is the demand for a "solution of a perplexity" that is the "steadying and guiding factor in the entire process of reflection."⁹⁷

Dewey characterised scientific knowledge as being built up through five steps. The first step is a "felt difficulty" or a problem requiring solution. This is followed by, or combined with, a second step, that of observation designed to locate and define the difficulty. The third step is the suggestion of a possible hypothesis or solution. The fourth, the "development by reasoning of the bearings of the suggestion or hypothesis," and the fifth step is the testing of the hypothesis by "further observation and experiment."⁹⁸

The first three steps Dewey saw as a process of induction, while he saw the latter two as deduction.⁹⁹ It must, however, be noted that in the case of social science the commitment to "experimentalism" meant little more than the notion that ideas should be "tried out" in order to observe the consequences. A process of "trial and error" or "intelligent improvisation."¹⁰⁰

95. S. Persons, American Minds, pp.360-362; J. Dorfman, The Economic Mind in American Civilization, 4: 124-164; R.E.L. Faris, Chicago Sociology 1920-1932 (San Francisco, 1967). There has been some debate on how pragmatic Veblen was. See particularly S.M. Daugert, op.cit., and A.W. Coats, "Methodological Controversy," pp.168-194.

96. J. Dewey, How We Think (Chicago, 1910), pp.50-51.

97. Ibid., p.11.

98. Ibid., p.72.

99. Ibid., pp.82-83.

100. J. Dewey, Freedom and Culture (New York, 1939), p.65.

The emphasis is heavily on observation and application.

Dewey's work has particular importance for institutionalism in its tendency to blur the distinctions between pure and applied knowledge, means and ends, and between the positive and the normative. Dewey explicitly links the "scientific method of experimentation" with "faith in progress through the intelligent regulation of existing conditions."¹⁰¹ Institutionalists since Veblen follow this line of thought and regard economics as having the tasks of not only understanding the workings of the system, but also of understanding its working in relation to perceived problems, and of suggesting reforms. The problem here is how "progress" is to be defined and what criteria should be used in deciding what reforms are desirable.

It is at this point that there is a tendency to slip into the use of some ultimate that seems to be "good." Indeed, Dewey himself tends to do the same, but his position deserves close examination. Dewey starts from the position that science and ethical judgements cannot be separated. What is good is what "promotes, furthers, assists, a course of activity," and what is right is "inherently connected with that which is needed, required, in the maintenance of a course of action."¹⁰² This is to say that if intelligence and science can determine what is needed or required to overcome a difficulty or problem, then that course of action is right and good. Science and values are united in the actions taken to overcome problems, and

101. J. Dewey, How We Think, p.154.

102. C. Wright Mills, Sociology and Pragmatism, p.404.

progress is the continued solution of problems as they occur by the application of science and intelligence. In this manner inquiry, intelligence, science, and the development of new instruments are, in fact, Dewey's central values.¹⁰³

There is one obvious difficulty with this line of thinking which is that it assumes that social antagonisms, and conflicts of interest can be overcome through intelligent investigation, and that a consensus can always be reached as to what is a problem and what is a "reasonable" course of action. Dewey argues that such a consensus can be reached through the advance of knowledge, the exercise of intelligence, and through social interaction, communication, and democracy. Under democracy the state, according to Dewey, is not simply an instrument but also an organisation of the public.¹⁰⁴ In this way the pragmatic-instrumental theory of value as developed by Dewey attempts to reconcile what is technically or instrumentally required with what is generally acceptable.

Post-Veblenian institutionalist writings are heavily impregnated with Dewey's thought. To be sure, different writers have stressed different aspects of this doctrine, but it is important to note that Dewey's influence does provide some of the key differences between institutionalist and orthodox economic thinking, most particularly in the institutionalist emphasis on the investigation of problems, pragmatic reform, experimentation, and the unifying of thought and action, means and ends, and science and values. Institutionalism is a

103. Ibid., p.409.

104. Ibid., p.441.

combination of the thought of Veblen, Dewey, and, in some cases, elements taken from writers such as Ely, Adams, and Patten.

One other area where Veblen had a strong influence was in the movement known as The Technical Alliance and later as Technocracy. The principle leader of this movement was Howard Scott, while others such as S. Chase pursued similar lines of argument. The Technocrats made considerable use of Veblen's ideas on the prevalence of waste and the inefficiency of business. Veblen himself was also marginally associated with the movement in its early years. Although Veblen's association with the movement was slight it was Veblen who "soon took the center of the stage" in the various articles that appeared about the movement.¹⁰⁵ Veblen's The Engineers and the Price System has been seen as the theoretical foundation of Technocracy, although some members of the movement argued that the line of influence ran from Howard Scott to Veblen. Whatever the merits of this argument it is clear that the major writers of the Technocracy movement utilised Veblen's work, although Scott's standard of efficiency was drawn in terms of energy and to that extent was noticeably different from Veblen's.¹⁰⁶ The technocrats and those who thought in a similar manner were also influenced by Taylor's work on "scientific management." They felt that the

105. J. Dorfman, Thorstein Veblen and His America, pp.459-462, 510-514; J. Dorfman, The Economic Mind in American Civilization, 4: 59-64, 5: 647-649; J. Dorfman, "New Light on Veblen," in T. Veblen, Essays, Reviews and Reports, pp.154-170.

106. See J. Dorfman, Thorstein Veblen and His America, p.512.

use of the best technologies and techniques, and the elimination of waste, together with an overall plan co-ordinating outputs to requirements would result in large increases in output.¹⁰⁷

The Technocratic movement found a strong foothold in the Department of Engineering at Columbia University,¹⁰⁸ and it is interesting to note the Technocratic elements and emphasis on scientific management that are evident in the writings of such institutionalists as R.G. Tugwell.¹⁰⁹ Tugwell, of course, was influenced by both Veblen and Patten, and it is easy to relate the Technocratic view to a combination of the work of these two men. Patten's emphasis on potential abundance, which Veblen never made explicit, combined with Veblen's emphasis on the dichotomy between business and industry.

S. Chases's books, The Economy of Abundance and The Tragedy of Waste, are arguments against the over consumption of the wealthy, the wastes involved in advertising, poor distribution methods, idle manpower, the waste involved in production due to bad technical methods, lack of research, lack of standardisation, and the monopolisation of industry by concerns seeking to maximise profit rather than match output to requirements. Also criticised are the wasteful extraction methods and utilisation of virtually all natural resources. Chase argued that an "Industrial General Staff" would better handle the system of production and

107. Ibid., pp.510-513; and H. Scott et al., Introduction to Technocracy (New York, 1933); A. Raymond, What is Technocracy? (New York, 1933).

108. J. Dorfman, Thorstein Veblen and His America, p.513.

109. J. Dorfman, The Economic Mind in American Civilization, 5: 509; A. Gruchy, Modern Economic Thought, pp.436-452.

distribution giving rise to considerable increases in output.

He asserts that:

...it almost seems as though there were a relentless law at work which, with every gain in invention, every improvement in technique, threw off a stream of parasites to eat up the slack, and leave us where we were...The horn of plenty is overflowing, but a dead hand reaches up to seal its mouth, and the fruits fall as slowly as before...The elimination of waste is important...not solely because it allows a flow of more roast beef, more bathrooms, and more boots. It is important because it holds out the promise of giving the spirit of man a chance to forget roast beef and bathrooms and boots, and to develop whatever creative impulses lie within...So far as we see the abatement of waste, it lies with the man of science--the social scientist, the engineer.¹¹⁰

Again, this appears as a combination of Veblenian analysis with a view of the future more closely aligned with Patten's. This combination of ideas ; an outrightly optimistic belief in the power of science and scientists to alter the course of events, and an emphasis on the Veblenian ideas of waste and lack of "serviceability" is typical of the result of Veblen's influence. The complexities of his thought were by and large forgotten or downplayed, his major impact being through his analysis of business and its opposition to industrial serviceability.

Elsewhere in the academic world Veblen's influence was strictly limited. Except for the occasional piece written on "Veblen effects" in consumption behaviour¹¹¹ Veblen's work seems to have had a small long term impact on the mainstream of economics which took increasingly to marginalism, and, in the

110. S. Chase, The Tragedy of Waste (New York, 1929), pp.275-279.

111. H. Leibenstein, op.cit. Some authors have made much greater claims concerning Veblen's influence or the extent to which he "anticipated" later writers. Such claims have to be treated with considerable caution. See for instance R. Vining

later 1930's, to Keynesianism. Veblen did, however, extend some influence over such unorthodox economists as J.A. Hobson.¹¹²

"Suggestions of Keynes in the Writings of Veblen," Journal of Political Economy 47 (1939): 692-704; C.G. Leathers and J.C. Evans, op.cit.

¹¹². See J.A. Hobson, "The Economics of Thorstein Veblen," Political Science Quarterly 52 (1937): 139-144.

CHAPTER 5.

WALTON HAMILTON AND THE FORMATION OF THE INSTITUTIONALIST CONCEPT

Walton Hamilton has considerable importance in the history of institutionalism. He introduced the term "institutional economics" into the literature in 1919, he was part of a group of economists at Michigan and later at Amherst who did much to forward the institutional idea, he had contacts with W. Mitchell, taught C.E. Ayres, worked with the War Industries Board during the First World War, and was involved in the New Deal in the 1930's.¹

Hamilton's work was also among the first to show that combination of ideas taken from Veblen, Dewey, and the new school, that is characteristic of so many institutionalists. Hamilton was a pupil of Adams' and in Hamilton's work Adams' concern with law is blended with Veblen's idea of a "genetic" economics, based on a psychology of habituation, and Dewey's problem centred

1. J. Dorfman, The Economic Mind in American Civilization, 5: 401-403, 425-438; J. Dorfman, "Walton Hamilton and Industrial Policy," editor's introduction to W.H. Hamilton, Industrial Policy and Institutionalism (Clifton, 1974), pp.5-28; W.H. Hamilton, "The Institutional Approach to Economic Theory," in Industrial Policy and Institutionalism, pp.187-198.

methodology and reformism.

I Hamilton and the Institutional Concept.

Hamilton's views on the correct approach to economics were set out in a series of articles in the Journal of Political Economy between 1915 and 1918, and in his 1919 paper which was entitled "The Institutional Approach to Economic Theory."² In these articles the influence of writers such as Veblen, C.H. Cooley, H.C. Adams, R.F. Hoxie, J. Dewey, and J.A. Hobson is quite evident, although Hamilton had also received a thorough training in the neo-classical tradition.

Hamilton's basic preconceptions were that economic theory should aim at providing a "generalized description of the economic order," and that it should be "relevant to the problem of control."³ To Hamilton these goals were linked in that he felt that the desirable type of economic theory would grow out of the attempt to build an economics relevant to contemporary problems. Hamilton praised the work of Adam Smith for possessing both these qualities, as Smith:

treats of such subjects as the development of technique, the form of business organisation, the function of money in furthering what we now call industrialism, the

2. These articles, "Economic Theory and 'Social Reform';" "The Development of Hoxie's Economics;" "The Price System and Social Policy;" "The Place of Value Theory in Economics, Parts I and II;" and "The Institutional Approach to Economic Theory;" are all reprinted in Industrial Policy and Institutionalism. Also of interest is an article written about the same time, "An Appraisal of Clay's Economics," Journal of Political Economy 27 (1919): 300-309; see also "Charles Horton Cooley," Social Forces 8 (1929/30): 183-187; "Veblen--Then and Now" in D. Dowd, ed., Thorstein Veblen: A Reappraisal, pp.14-23.

3. W.H. Hamilton, "The Institutional Approach to Economic Theory," op.cit., pp.189-192; and W.H. Hamilton, "An Appraisal of Clay's Economics," op.cit., pp.300-305.

appraisals of agriculture by many peoples, the influence of urban development upon rural welfare, the maintenance of justice, the nature of monopoly, and the character and functions of war. These things are not dealt with in isolation; they are one and all related to a coherent economic inquiry into the material well being of the people of a nation. They are all aspects of an "economic theory" in which dialectical discussions of the nature and manifestations of value are quite incidental to a larger concern with the institutional basis of national wealth.⁴

According to Hamilton, economics had developed in the direction of an increasing concern with logical exactness and the technical problems of value theory, and away from a concern with actual economic problems and the wider institutional setting. Hamilton argued that this tendency had resulted in economic theory becoming nothing more than "value theory," with a resulting separation between the theory and the fields of labour economics, transport economics, public finance, business organisation, and the like. Thus, the study of economic problems had become divorced from the pure theory.⁵

From this Hamilton went on to maintain that anything that could properly be "dignified" with the name of economic theory could not consist entirely of "formulas explaining the processes through which prices emerge in a market."⁶ In order that economic theory, as a generalised description of the economic order, be developed, the subject

must go beyond sale and purchase to the peculiarities

4. W.H. Hamilton, "The Place of Value Theory in Economics, I," op.cit., pp.137-139.

5. W.H. Hamilton, "The Place of Value Theory in Economics, II," op.cit., pp.152-155; and "The Institutional Approach to Economic Theory," op.cit., pp.188-189.

6. W.H. Hamilton, "The Institutional Approach to Economic Theory," op.cit., p.189.

of the economic system which allows these things to take place upon particular terms and not upon others. It cannot stop short of a study of the conventions, customs, habits of thinking and modes of doing which make up the scheme of arrangements which we call the economic order.⁷

Such a theory, according to Hamilton, could unify the subject, linking the areas of special study and of current economic problems into a general theoretical framework. This theory would thus be both more general, and more relevant, than the "value theory" of neo-classical economics.⁸

Hamilton's concern with the institutional setting, customs, and habits of thought and action led him to see this general theory as one that was "concerned with matters of process" and "based on an acceptable theory of human behaviour."⁹ The idea of process was required due to the changeable nature of the institutional framework. Thus:

We need constantly to remember that in studying the organisation of economic activity in general as well as in particular, we are dealing with a unified whole which is in process of development... The economic system, which is so baffling and unintelligible to us, is not so much an interesting group of real things as a curious stream of tendencies.¹⁰

An "acceptable psychology" was also required by the emphasis on institutions as Hamilton viewed institutions in a similar way to Veblen; as habitual and conventional modes of thinking and acting. Action in Hamilton's view was not so much

7. Ibid., pp.189-190.

8. Ibid., pp.190-192.

9. Ibid., pp.192-196.

10. Ibid., p.194. See also W.H. Hamilton, "Price--By Way of Litigation," Columbia Law Review 38 (1938): 1024-1026. From this Hamilton argued that the "mechanistic" approach to equilibrium analysis was inadequate.

voluntary as the result of "subtle conventions." Neo-classical ideas of rational maximising behaviour were inadequate because:

It assumed that each judgement could be made in detachment. It failed to note that my life and yours is a continuous thing, and what I do today constrains my acts of tomorrow. It overlooked the part that instinct and impulse play in impelling one along the path of his economic activity. And, most important of all, it neglected the influence exercised over conduct by the scheme of institutions under which one lives and must seek his good.¹¹

Hamilton, in marked contrast to Veblen, argued that to insist on a "genetic" treatment of institutions "is nothing more than to insist that they are subject to conscious control."¹² In this manner Hamilton sought to combine Dewey's pragmatic instrumentalism and Veblen's notion of cumulative causation or process, a synthesis that is also obvious in his method of "organic particularism."¹³

Organic particularism was the method through which Hamilton saw an institutional economics being built. It is a problem-centred method which "points a way to the study of industrial society as a whole through the study of a particular problem." The method is "organic," as opposed to "mechanistic," because it studies "the situation as a whole from the standpoint of its object;" it is concerned with "functional activities" rather than "structural characteristics," and "finds the reality of

11. W.H. Hamilton, "The Institutional Approach to Economic Theory," op.cit., p.196. Hamilton does not rule rationality out altogether, but appears to be arguing that its operation is constrained, modified and directed, by the institutional framework, instinct, impulse and "other qualities of human nature."

12. W.H. Hamilton, "The Institutional Approach to Economic Theory," op.cit., p.195.

13. W.H. Hamilton, "The Development of Hoxie's Economics," op.cit., p.69, n.2.

an object" in "its relationships, past and present, to other objects which make up its environment."¹⁴ Hamilton argued that this would allow the investigator

...to determine from the examination of a particular case just what theoretical problems in economics were relevant to the practical issues of the world in which we live.¹⁵

Hamilton's work concentrated on the issues of wages, prices and price policies, monopoly, patent rights, and like, and it was through this problem centred method that Hamilton hoped to build up the detail of his institutional theory. He did not, however, expect such a theory to be built quickly, or that it would ever achieve the same degree of rigor as neo-classical economics:

It may require a decade or more for a process of trial and error to produce a relatively consistent body of thought. Even then it will lack the clear-cut, definite, and articulate character of neo-classical theory...It must find in relevancy and truth a substitute for formal precision in statement.¹⁶

As Hamilton's economics is explicitly reformist he also faces the problem of providing some criterion by which reform proposals can be judged. Hamilton is not always clear as to whether such judgements are properly a part of the economist's concern. In one article he states that "in actual use" both orthodox and institutional economics "in telling the elements which make up the economic system, passes judgements upon them,"

14. Ibid.

15. W.H. Hamilton in a letter to R.G. Tugwell, March 10, 1923, quoted by J. Dorfman, "Walton Hale Hamilton and Industrial Policy," op.cit., p.13. See also W.H. Hamilton, "The Development of Hoxie's Economics," op.cit., pp.68-69, n.2; and A.W. Coats, "Methodological Controversy," pp.379-381.

16. W.H. Hamilton, "The Institutional Approach to Economic Theory," op.cit., pp.197-198.

while later in the same article he states that "it is not the place of economics to pass judgements on practical proposals. But quite in keeping with its scientific character, it can impartially gather the facts and formulate the principles necessary to an intelligent handling of such problems."¹⁷

Whatever Hamilton's stated position on the relationship between economic investigation and ethical judgement, it is clear from his pragmatic viewpoint that some basis for the judgement of the socially desirable is required. Here Hamilton looked to the operation of a democratic government and the legal system, which he saw as working on the basis of judging what behaviour is to be considered "reasonable," given the ethical standards of the community. This allows Hamilton to argue that:

The ideal of the common law is to secure a justice which is that of the layman. Thus the legal standard of behaviour is that of the "reasonable man," one which allows conduct to be assessed--and differently assessed--by the mores of the community and the age.¹⁸

Thus the idea of what is "reasonable" becomes the standard, but Hamilton's stress on the law and the moral sense of a society, also means that these elements can be the agents of change, and must be included in any theory of institutional process. Hamilton admits the difficulty of this as:

...to project the law as it is being remade, within the framework of a volatile economy and against the background of a moral order which itself is on the march is a challenging--and impossible--adventure. It is helped along, however, by a maxim...that the

17. W.H. Hamilton, "The Institutional Approach to Economic Theory," *op. cit.*, pp.188, 191.

18. W.H. Hamilton, "The Law, the Economy, and Moral Values," in A.D. Ward, ed., Goals of Economic Life (New York, 1972), p.271.

rules of law are the transient instruments of values more enduring than the rules themselves.¹⁹

In this manner Hamilton backs away from grappling with the full relativity of morals and law, and equips himself with a set of "dominant moral requirements" which provide a basis for judgement.

These dominant requirements were, for Hamilton, free play for the "dynamic urges" of society, and the "release of the capacities of men," or in other words:

The freedom of man with his latent capacities developed by a rich and varied exposure, is perhaps the ultimate goal. To that end there must be a standard of life, which along with a minimum of worldly goods, insures access to personal opportunity. If worldly goods are to increase and if opportunity is to be enriched and enlarged, the dynamic urge must be given full play.²⁰

Hamilton considered that the competitive system did much to achieve these ends, but that "the instrument must not be exalted as if it were the end," and the competitive system should be open to alteration where "novel devices promise to ensure better performance." Hamilton was clear that "its shortcomings make imperative a search for amendment or substitute."²¹

II Hamilton's Investigations of the Economic Order.

In investigating how the contemporary economic system operated Hamilton was posing the following questions:

In larger terms--is competition an effective instrument of order and justice which a society can use at its will? Is it, instead, an institution of transition, an economic order which lies precariously between two eras of authority? Or is it, after all, a great myth

19. Ibid., p.261.

20. Ibid., p.264.

21. Ibid., pp.264-265.

by which we reconcile ourselves as best we can to a business system which goes its own way? And what then is to be its place in the national economy which presently we are to redesign?²²

Hamilton characterised the orthodox economic theory of competition as viewing an economic system based on competition and market determined prices as one which conformed to natural laws and provided perfect justice and order. This theory maintained, in Hamilton's view, that competitive business would result in the continuous accomodation of production to demand, the elimination of waste and inefficiency, the safeguarding of the consumer, the awarding to the workman of "the true and full value of his service," and the provision of just rewards to the progressive and resourceful individual or entrepreneur. In this manner the system could be seen as helping to spur technological change and progress, while also unifying the "multitude of little judgements, made by interested parties, properly checked and balanced, into an economy at work."²³

Hamilton, however, noted that such a theory of competition had grown up after the competitive system itself, that it was a smoothing over of the actual empirical operation of the system, that it was a "fiction" consisting of "shadow rather than substance," and that it had survived because of its logical appeal, its neatness, and its accord with current opinion, rather than because of its accuracy or usefulness.²⁴

Hamilton made use of Veblen's dichotomy between institutions

22. W.H. Hamilton, The Pattern of Competition (New York, 1940), p.5.

23. Ibid., pp.10-11.

24. Ibid., p.12.

and technology in a slightly modified form. Hamilton argued that any investigation of the economic order had to start from an analysis of certain basic elements. The first of these was the technological processes in use, and the second was the form of organisation through which production was controlled.²⁵ The form of organisation is perhaps best to be seen as a set of institutions and customary usages, thus:

The form of organisation is mediatory;...there must be arrangements, understandings, things-taken-for-granted, by which elements are drawn together into the production of wares, and articles find the way from the makers to the market...The purchase of a quart of milk, a fifth of Scotch, or five gallons of gasoline is an obvious occurrence; yet a disclosure of all the understandings and conventions which impinge upon the act would fill a ponderous volume. A technical process...is one thing; the arrangements by which this instrument is made to serve the community are quite another.²⁶

Hamilton viewed the contemporary economic order as resting upon machine technology and a form of organisation that was based upon the institutions of private property, free contract, money-making, and openness of competition. This Hamilton described as the business form of organisation, and he saw it as the newest and most conspicuous form, although not the only form, as the state, the family, and the professions also exercised control over certain areas of productive activity.²⁷

This business form of organisation did not grow up quickly and was not the product of the purpose or intent of any group. Rather, Hamilton saw the business system as growing out of "a

25. W.H. Hamilton, et al., Price and Price Policies (New York, 1938), pp.9-10.

26. Ibid., p.10; and W.H. Hamilton, The Pattern of Competition, pp.21-22.

27. W.H. Hamilton, Price and Price Policies, pp.11-13.

cumulation of countless expediences;" as an incidental by-product of the day to day activities of people making a living.²⁸

For Hamilton, circumstance was the creator of the details of the system, and as the system grew so did complex systems of customary usages which may differ from industry to industry.

The business system:

is a combination of usages, each subject to variation, adaptation, obsolescence, and replacement, through which resources are drawn into production, managements are chose, judgements are formulated, prices are made, and industry yields to the community what it can be made to give.²⁹

The price system and the business form of enterprise mean that individuals as consumers, workers, or employers, will be obliged to behave in ways that take account of their pecuniary interests. The existence of the price system and the business form of organisation, therefore, has a considerable influence over thought and action,³⁰ but it is not the only influence. For Hamilton the laws of competition were not so all pervasive that other institutions, customs, and habits did not also have an effect. Thus, behaviour may be modified by the existence of unions, government regulations, deeply entrenched customary or habitual ways of doing things, or simply by sheer ignorance.³¹

With this framework Hamilton set out to determine how this so-called competitive business system operated by inves-

28. W.H. Hamilton, "The Price System and Social Policy," op.cit., pp.83-91; W.H. Hamilton, The Pattern of Competition, pp.16-19; W.H. Hamilton, Price and Price Policies, pp.3-6.

29. W.H. Hamilton, Price and Price Policies, pp.13-14.

30. W.H. Hamilton, "The Price System and Social Policy," op.cit., pp.102-103.

31. W.H. Hamilton, Price and Price Policies, pp.10-14.

tigating problems and the ways in which it actually worked. The first point Hamilton makes is that the existence of a price system leads employers to oppose any measure, regardless of its social worth, that they believe will raise costs or reduce profits.³² The employer in his attempt to increase profits will also attempt to "impinge" upon prices not strong enough to resist and will attempt to gain some control over his output prices through some form of combination or monopoly element. Businessmen in competition with each other will also tend to develop brand names, and engage in advertising and intense salesmanship in an attempt to gain larger shares of the market or a partial monopoly.³³

Hamilton allows that large scale technology may bring considerable benefits in terms of a reduction in unit cost and the elimination of competitive advertising, salesmanship, and competitive research, but maintains that under the business system such monopoly power will be used to restrict output and increase prices. Such actions Hamilton calls "capitalistic sabotage."³⁴

Hamilton is also concerned with the restriction of the spread of technological knowledge through the use of patent laws and the "freezing of what should be modern technology into a bedlam of feudal domains."³⁵ What is more, Hamilton sees the

32. W.H. Hamilton, "The Price System and Social Policy," op.cit., pp.100-101. Hamilton sees this as particularly true in industries that use large-scale technology. Other industries would tend to remain less concentrated and more competitive.

33. Ibid., pp.97-101 and p.108.

34. W.H. Hamilton, The Control of Wages (New York, 1968), pp.55 and 71-79.

35. W.H. Hamilton, The Pattern of Competition, pp.70-74; and W.H. Hamilton, Patents and Free Enterprise (Washington, 1941).

business system as imposing other unnecessary costs on society. In particular, Hamilton locates what he calls the costs of ownership which he defines as being the returns paid to the holders of intangible assets or to the owners of natural resources who receive a resource rent for no productive effort. These returns Hamilton sees as charges on the community for the use of assets which belong to the community.³⁶

A further defect of the business system Hamilton finds in the existence of business cycles and unemployment. Hamilton does not delve into the exact causes of business cycles or unemployment but argues that such phenomena are symptoms of "disturbances inherent in our competitive organisation of industry." Cycles and unemployment are therefore not due to production being greater than needs but to a "malignant malfunctioning of the industrial units," which disrupts the flow of production.³⁷

The business system also tolerates a considerable amount of waste, inefficiency, and poor management. Hamilton argues that in a given industry the efficiency of different firms may range over a surprisingly large spectrum. This suggests:

...that the well known laws of competition are not so nicely articulated but that firms may continue to operate in industry when their level of efficiency is far below that of many of their competitors.³⁸

Wasteful practices pervade all aspects of the operation of some business, and may be due to restrictive labour practices, the restriction of output by managers, or through sheer inefficiency of management. Hamilton notes that managers are often selected

36. W.H. Hamilton, The Control of Wages, pp.40-42 and 67-71.

37. Ibid., pp.65-67 and 163-165.

38. Ibid., p.153.

on the basis of their influence rather than on the basis of their fitness for the job. Some 75% of all waste, Hamilton argues, is the result of poor management.³⁹

A considerable portion of this waste and inefficiency may come from the power of custom and tradition over the behaviour of managers and workers. Managers may be reluctant to scrap outmoded equipment,⁴⁰ or may fail to respond correctly to the signals of the price mechanism due to ignorance. In his investigation of the coal industry Hamilton found that

enlightened self-interest hardly gets a fair chance in the coal industry. It has first to break through a "cake of custom" thick enough to have been perceived by observers with no special claim to acuteness. It has to make its way against an ignorance that is almost proverbial. In fact, it would be somewhat more accurate to say that custom and ignorance rule coal than to attribute its guidance to enlightened self-interest.⁴¹

Thus, in some industries, particularly old and long-established industries, the action of the pecuniary motive may be modified by the force of habit, custom, or by ignorance and lack of knowledge. Hamilton found in the coal industry a lack of coordination with other industries, a lack of adjustment between mine capacity and the level of production, with capacity always well above the required level, a lack of modern methods of production, unstable prices and levels of profitability, low wages, poor safety standards, irregularity in employment, poor housing conditions, and many abuses in company owned towns.⁴²

39. Ibid., pp.46-62 and 153. See also The Pattern of Competition, pp.70-74.

40. W.H. Hamilton, The Control of Wages, p.60.

41. W.H. Hamilton and H.R. Wright, The Case of Bituminous Coal (New York, 1925), p.45.

42. Ibid., pp.55-93.

Hamilton's conclusion was that:

On all sides, bituminous coal presents a strange contrast between the simplicity of the doctrine of the invisible hand and the confusion of the visible industry. Even under a regime compromised by collusion, custom, and government, the spotted actuality stands out strangely against the pure white of the ideal. In the waste of mining processes, in the lack of co-ordination between the tasks, in the irregularity of operation, in the planlessness of development, the actual is far from the perfect. Neither workers nor consumers nor investors have been able to draw the promised rewards from an industry in such a state. The failure of free enterprise has touched all who draw their livings from coal mining or look to it for the means of keeping industry going.⁴³

Thus, for Hamilton a coal industry left unregulated would lead to "disorder." However, as Rostow pointed out, Hamilton was not always clear about what he meant by "disorder." He frequently used the term to denote the adjustments that would have to be undertaken in the face of technical advance. Technical advance in the coal industry led to greater efficiency, increased output, and to excess capacity. Such a result, for Hamilton, contained disorder. Indeed, at some points, Hamilton appeared to suggest that anything that led to declining prices contained the seeds of potential disorder, a view which Rostow subjected to penetrating criticism.⁴⁴

Hamilton's view appears to be that in some industries, such as coal, a technical advance increases output and lowers prices, which leads to excess capacity; but the less efficient firms will

43. Ibid., pp.92-93. See also W.H. Hamilton, "Coal and the Economy--A Demurrer," Yale Law Journal 50 (1941): 595-612. The Hamiltonian view that competition was to blame for the troubles of the coal industry was objected to by E.V. Rostow, "Joinder in Demurrer," Ibid., pp.613-620.

44. W.H. Hamilton, "Coal and the Economy--A Demurrer," op.cit., passim., and E.V. Rostow, op.cit., pp.613-615.

not go out of business as they will be bought over for prices low enough to keep them operating. This in turn stalls the technical advance and results in permanent over capacity, low wages, and inefficiency. Hamilton felt that problems such as this could only be overcome through some kind of regulation on capacity, a promotion of technical change, and "a conversion of the gains" into cheaper coal and "better livings." Hamilton also felt that as wages and transport costs were not set competitively, to leave coal prices unregulated was to invite difficulties.⁴⁵

The plain truth of the matter is that the mechanisms of the competitive system no longer work in the bituminous coal industry. The expenses of production wax and wane as of old, but no longer can low costs be depended upon to guide operators in expansion and high costs to ring the knell of business failure for wasteful enterprises...Prices are here no "beacon" to guide production; costs no "brake" upon reckless enterprise.⁴⁶

Hamilton takes this type of argument to the point where he argues that the practices of industries may not only differ significantly from the ideal, but may also differ significantly from industry to industry. Hamilton concluded that the price decisions of businesses were based on a vast array of considerations which varied widely from case to case. Thus:

A striking lack of similarity in price policies seems everywhere evident...As the policies of industry differ, so do the planes upon which their products are found...The market is not the creator, but the mediator, of values. All that comes there...is given worth by habit and usage, procedure and technique,

45. W.H. Hamilton, A Way of Order for Bituminous Coal (New York, 1928), pp.33-41; and W.H. Hamilton, "Coal and the Economy-- A Demurrer," op.cit., pp.598-601.

46. W.H. Hamilton, A Way of Order for Bituminous Coal, p.16.

in the industrial community. All that is a culture--the industrial arts, the organisation of industries, the processes of marketing, the ways of life--converge there with their host of conflicting claims....The evidence does not point to an orderly structure whose prices have an underlying logic in permutations of pecuniary elements each with its precise unit cost. In industry the prices of things have the rational of an affair of man, of growth, and of process.⁴⁷

Hamilton was also concerned about the existence of joint products, and felt that the difficulties of sorting out the costs attributed to each effectively robbed pricing of a firm foundation.⁴⁸ Hamilton summarised all the arguments given above when he described the conditions under which competition would work as follows:

A standard commodity, a free and open market, an increase in unit expense with mounting volume, an obliging absence of the complexities brought by multiple products, a series of costs for skills and materials which are not themselves reflections of price--these are pecuniary requisites. But others are almost as essential--an industry open to newcomers; want of patents and other legal sanctions with which to fence about closed domains; a freedom from private government through price leadership or an intricate array of trade practices; an institution of bankruptcy which promptly liquidates the obsolescent venture.⁴⁹

Hamilton found few industries that conformed to this pattern and concluded that few industries were therefore adequately controlled by competition.

Hamilton also developed a set of arguments to show that under the present system workers had been robbed of "ownership, initiative, and power" despite the existence of a democratic

47. W.H. Hamilton, Price and Price Policies, pp.547-549.

48. W.H. Hamilton, Price and Price Policies, p.540.

49. W.H. Hamilton, "Coal and the Economy--A Demurrer," op.cit., p.596; see also W. Rostow, "Joinder in Demurrer," op.cit., pp.613-620. Rostow objects greatly to this argument by "syllogism."

political system.⁵⁰ This development was not, in Hamilton's view, due to any conscious desire on behalf of employers, but was something that resulted from the logic of the large scale technology and form of organisation which led towards concentration. Hamilton felt that employers were considerably more powerful than workers as they could forward and maintain their interests in ways that were difficult for workers to duplicate. At the "apex" of the industrial organisation:

are the entrepreneurs, recipients of large incomes, endowed with comprehensive industrial powers, and, perhaps most important of all, possessed of unusual control over public opinion.⁵¹

For these men there is something of an identity of interest, as no matter how much they compete with each other, they "are alike opposed to legislation or informal action designed to increase the price of cost goods" and agreed on the desirability of any policy promising an expansion of business. These interests are given a great deal of weight due to the importance of manufacturing industry in the public mind and the general conviction that "machine industries are all good."⁵² The business and personal links of the large concerns with smaller businesses, the professions, particularly the legal profession, the press, and the world of finance, means that the interests of large business will also be forwarded by these other groups.

All of these, bankers, brokers, lawyers, advertising managers, editors, and what nots, have intimate

50. W.H. Hamilton, "The Price System and Social Policy," op.cit., pp.83-85.

51. Ibid., p.107.

52. Ibid., p.109.

personal relations with responsible businessmen. These tend to a common viewpoint, common habits of thought, and a common theory of social welfare.⁵³

On the other hand there is the proletariat, but Hamilton viewed the working class as "rather an aggregation of groups than a single compact and homogeneous unit."⁵⁴ Thus, although the worker generally believes present arrangements do not work in his favour and he can imagine the possibility of changes in the system to benefit the working class, these are perceived as "matters of the long time, and he must live his life in the immediate future."⁵⁵ Working class actions, whatever their long term benefits, may only be undertaken at considerable cost in short run, and because of this "the constraints of [the] immediate position make the promises of reform uncertain and nebulous." Radicalism becomes a matter of the "inner life" and not a matter of outward display.⁵⁶

Hamilton therefore finds little hope for change within the industrial or business system itself. There is, however, still the possibility of government action operating to safeguard the community's welfare,⁵⁷ although this line of action was

53. Ibid., p.112.

54. Ibid., p.113. See also ibid., p.114, n.1.

55. Ibid., p.113.

56. Ibid., p.114.

57. Hamilton's investigations of government control and the operation of the legal system are contained in The Pattern of Competition, pp.53-99; "Affectation with Public Interest," Yale Law Journal 39 (1930): 1089-1112; "Price--By Way of Litigation," op.cit., pp.1008-1036; "The Control of Big Business," The Nation 134 (1932): 591-593; The Politics of Industry (New York, 1957); Price and Price Policies, pp.14-26 and 525-556; and "The Law, the Economy and Moral Values," op.cit., pp.248-274.

restricted to the extent that government and the courts also accepted the "mechanistic" view of the competitive order.⁵⁸

Hamilton found that the courts had effectively restricted government action to the case of "natural monopolies" such as public utilities, where regulation was allowed, and to the case of other monopolised industries where restraint of trade could be prevented and the monopoly broken up.⁵⁹ Thus:

...measures proposed to bring prices under control, if they are to receive judicial approval, must be in accord with the picture of the structure of industry and the notions about the way it works held by the majority of the court. In their minds the two clear cut classes of competition and monopoly divide industries between them...The system of control may be set down as three presumptions, which are to be taken in order: price is to be left to free enterprise; the anti-trust laws are to be used, if need be, to keep enterprise free; and if free enterprise cannot be made to work, resort is to be had to formal price fixing.⁶⁰

The weaknesses in this position are, in Hamilton's view, considerable; mainly, it fails to take account of the argument that competition "makes for disorder as well as for order."⁶¹ Hamilton points out that the industrial world cannot be neatly divided into competition versus monopoly as "elements of the two are combined in endless permutations in various businesses."⁶² The competitive system, for Hamilton, may not work well in some industries and attempting to deal with the problems of modern capitalism by enforcing competition with laws such as the Sherman Anti-Trust Act:

58. W.H. Hamilton, The Pattern of Competition, pp.5-6.
 59. W.H. Hamilton, "Affectation with Public Interest," op.cit., pp.1106-1109.
 60. Ibid., p.1107.
 61. Ibid., pp.1108-1109.
 62. Ibid.

made no thrust at growing dangers...came to no grips with the trends of the times...made no attempt to shape the development of a rising capitalism...When the insistent need was to command the future, it looked to the past. On the eve of the greatest of industrial revolutions, the National Government was fitted out with a weapon forged to meet the needs of petty trade.⁶³

On the other hand, Hamilton does find some cause for optimism in that some movement had been made in judicial judgements towards a "more realistic" conception of the economic order. Hamilton felt that as the knowledge of how the system actually operated grew the courts would gradually become more amenable to other forms of control.⁶⁴ Hamilton argued that as the courts had allowed legislation to control hours of work, unfair practices, poor quality outputs, which he characterised as laws to control the "plane of competition," the same realistic approach should be extended to cover such things as the control of prices.

If free enterprise may fail to establish a working day which is not too long, or to ensure quality in wares offered for sale, it may fail in the making of prices...A case for regulation must rest upon the presence of maladjustment, the need for amendment, the relevance of the remedy, and the promise of results. In short, price-fixing should be held valid whenever "there is any combination of circumstances materially restricting the regulative force of competition, so that buyers or sellers are placed at such a disadvantage in the bargaining struggle that serious economic consequences result to a very large number of members of the community."⁶⁵

Hamilton, therefore, felt both that more control over

63. W.H. Hamilton, The Pattern of Competition, p.57. See also W.H. Hamilton, "The Control of Big Business," op.cit., pp.591-593.

64. W.H. Hamilton, "Affectation With Public Interest," op.cit., pp.1108-1109.

65. Ibid., pp.1110-1111. The quote is Justice Stone's.

industry was necessary and that it would eventually be achieved as knowledge about the system grew and the courts allowed more government intervention. Hamilton advocated no single form of government regulation due to the variety of industrial conditions, and also argued that any system of control must be capable of responding to changing circumstances.⁶⁶ For reasons such as these Hamilton argued that:

We have ceased to think in terms of panaceas and neither a return to the good old competitive system of our fathers nor the adoption of a ready-made, hand-me-down substitute will meet current need. If our industries are to become instruments of national well being, we must employ a varied program of economic control. Three distinct types of organisation seem to be promising. Industries which produce non-essentials and can win only a limited trade against the allurements of unlike wares demand little public control; their activities may well be entrusted to the capricious solicitude of the market. Industries such as railroads and power, which are linked with all the activities of the economic order demand a large social oversight; this may be met either by an administrative commission or by public ownership. Industries such as coal and steel, which have distinctive groups of customers may be organised from within under a control in which producers and consumers alike share.⁶⁷

In his later work Hamilton became somewhat less confident about the use of the judicial system, commissions, or government agencies to control industry. Hamilton noted that the courts were not an appropriate vehicle to control industry because of the length of time involved in judicial proceedings, the lack of economic expertise at the disposal of the court, and the tendency for legal regulations to become the basis of new vested

66. W.H. Hamilton, Price and Price Policies, p.555.

67. W.H. Hamilton, "The Control of Big Business," op.cit., p.593.

interests.⁶⁸ Hamilton also came to feel that commissions became identified with the industries they were supposed to be regulating, and frequently became bogged down in a mass of detail with the result that their real purpose was lost sight of. According to Hamilton, Congress failed to properly supervise the commissions and the commissions sometimes withheld information from Congress.⁶⁹

Hamilton's experience with the New Deal and the N.R.A., also led him to express criticism of direct regulation by government departments and agencies, a form of control he had supported on the basis of his experience in the War Industries Board during the First World War.⁷⁰ Hamilton went as far as to argue:

The N.R.A., brief as was its life, staged a full-dress performance of the hazards of the administrative process. Wide powers were granted--to become sanctions under which the strategic group could lord it over industry. The strong were served with the affectation of protecting the weak; managerial privilege was entrenched under a picture of fairness to the little fellow and to labor. Rules were written, presently to be smothered beneath a flood of exceptions; the vague clauses in codes were made to mean what interested parties wanted them to mean; "emergencies" were invoked to justify orders which otherwise would have been intolerable.⁷¹

68. These theories are explored in depth in W.H. Hamilton, "Affectation With Public Interest," op.cit., pp.1111-1112; W.H. Hamilton, "Price--By Way of Litigation," op.cit., passim; W.H. Hamilton, The Politics of Industry, pp.142-152; and W.H. Hamilton, The Pattern of Competition, pp.53-82.

69. For Hamilton's criticisms of commissions see W.H. Hamilton, The Politics of Industry, pp.152-160; and W.H. Hamilton, "The Law, the Economy and Moral Values," op.cit., pp.265-270.

70. For Hamilton's views after the First World War see the introduction to W.H. Hamilton et al., Readings in the Economics of War (Chicago, 1918), pp.xi-xv.

71. W.H. Hamilton, The Pattern of Competition, p.98; see also, W.H. Hamilton, "The Law, the Economy, and Moral Values," op.cit., pp.267-270; W.H. Hamilton, Price and Price Policies, p.548.

On the other hand, Hamilton maintained a belief in co-operation, in joint management by employers, workers, and consumers, and felt that worker education and further economic research could only help. Nevertheless, Hamilton retreated from designing a system of control, and came to rely more on his "dominant moral requirements." Thus:

...if a blueprint is impossible, there are values to shape choice...The economy of today calls for its degree of regeneration. It demands more than other economies that the gears engage, that the switches lock. It necessitates a great co-operative effort of the first magnitude, which to a considerable extent invites regulation. But in this process it is imperative that the cry of enterprise be not stilled, that the minority be allowed to have its chance, and that there be a thousand points in the larger system at which creative thought and effort may be applied.⁷²

In conclusion, then, Hamilton never developed a generalised institutional theory, nor did he ever develop a clear programme of reform. This result was a direct consequence of Hamilton's concretism, and his conclusion that there is "no articulate national economy but only a hegemony of independent and overlapping economies,"⁷³ which implies that economic investigation and reform must proceed on an industry by industry basis. It appears, then, that Hamilton's commitment to realism led him to a position where a general theory of institutional process became unobtainable. The penalties Hamilton paid for this view were considerable. Much of his work is descriptive in character, and there is often little basis provided for the prediction of the effects of policy, Hamilton sometimes arguing for experimentation with policies. His industry by industry approach also

72. W.H. Hamilton, The Politics of Industry, pp.166-167.

73. W.H. Hamilton, Price and Price Policies, p.13.

led him away from advocating any general macroeconomic policies, as can be seen in his objections to the use of deficit financing on the basis that the reactions engendered in particular industries might not be desirable.⁷⁴

Hamilton's work is also marred in several other respects. His contention that less than perfect knowledge, joint products, variability in efficiency between firms, the existence of monopoly or imperfect competition, in general the implication that the laws of competition are not "nicely articulated," hardly provides an adequate basis for his rejection of the orthodox treatment of market mechanics.

Hamilton, however, is seeking to go further than this, and, indeed, further than Veblen's objections, which were based on the role of an emulative and profit-centred system in creating monopoly and adverse effects on output, prices and serviceability. Hamilton attempts to show that even in competitive industries, the market system may work to create "disorder," in the sense of a lack of coordination, waste, inefficiency, over capacity and the like. Unfortunately, Hamilton's arguments on this score are very weak. In order to prove his point Hamilton attempts to argue that businessmen in some industries fail to respond to the signals of the price system in a rational fashion. In order that Hamilton can lay the blame on the competitive system he must argue that the appropriate response is ruled out by the institutional structure of the competitive system itself, but this he, in fact, fails to do. Indeed, it is often the case that

74. W.H. Hamilton, "Coal and the Economy--A Demurrer," op.cit., pp.611-612.

Hamilton argues both that the institutions of the price system and profit making hold too much sway, resulting in a lack of regard for non-pecuniary objectives, and that they have too little sway, resulting in action on the basis of custom or ignorance.

III Hamilton and the Institutional Movement.

Despite the obvious weaknesses of Hamilton's methodological position, many other writers took a similar line, and one commentator has given Hamilton some share in the responsibility for this.⁷⁵ Among those writers who came close to Hamilton's approach were R.F. Hoxie, a pupil of Veblen's and a close friend of Hamilton's, W.W. Stewart who worked with both Veblen and Hamilton, and I. Lubin who was also a pupil of Veblen's and who studied and worked with Hamilton at the Institute of Economics, later the Brookings Institution, and H.G. Moulton who became the director of the Brookings Institution.

Hoxie's work on methodology involved the use of an "empirical method" built on a pragmatic and problem centred approach.

Hoxie distinguished his method from mere description as

the economic problem and the taxonomic end are as clear in the mind...as in the case of orthodox instruction. Hence the student is not sent out, as in purely descriptive work, to gather facts at random for the fact's sake, as with the idea that all economic facts are of the same causal value. Rather he is guided at the beginning and throughout to the selection of facts which involve definite economic problems.⁷⁶

75. D. Hamilton, "Why is Institutional Economics Not Institutional?," op.cit., pp.311-312.

76. R.F. Hoxie, "On the Empirical Method of Economic Instruction," Journal of Political Economy 9 (1901): 491. See also R.H. Hoxie, "Historical Method Versus Historical Narrative," Journal of Political Economy 14 (1906): 568-572; and R.F. Hoxie, "Sociology and Other Social Sciences," American Journal of

In his later work Hoxie did not substantially alter these views, although he did elaborate on them considerably and came to place a much heavier emphasis on the role of problem solving in providing a focus for empirical work. This pragmatic element in Hoxie's thinking is shown clearly when he argues:

...is it not true that in reality all scientific investigation is undertaken in furtherance of some definite, vital, human interest? We wish to control the forces at hand so as to better realize some human purpose, therefore we seek to comprehend the existing situation from the standpoint of the purpose or interest in question...We seek to understand the present in its relation to the interest at stake, the problem in hand. With this end in view we go as scientists to the past--to history--not to endeavour to "reconstruct the past" but for light on the practical problem before us.⁷⁷

For Hoxie this problem centred approach avoided the difficulties in attempting to grapple with an "all inclusive, all sufficient science of human experience."⁷⁸ Thus, human experience:

...can be viewed as a whole from a hundred different aspects, and as a whole analysed and reconstructed with reference to any one of these. But it cannot be analysed from more than one aspect at a time, or reconstructed on the basis of more than one principle of classification at a time.⁷⁹

Thus, to Hoxie each social science is distinct, not necessarily in terms of the data that each considers but in terms of the interest or problem that each is concerned with. Each separate science should look at the whole but in different ways,

Sociology 12 (1907): 739-755.

77. R.F. Hoxie, "Historical Method vs. Historical Narrative," op.cit., p.569.

78. R.F. Hoxie, "Sociology and the Other Social Sciences," op.cit., p.751; in this article Hoxie is objecting to A.W. Small's view that sociology be seen as an all-inclusive science. Hoxie argues that "it is one thing to assert that human experience is one unified whole. It is quite another to assert that it can be scientifically apprehended as such."

79. Ibid., p.749.

and for Hoxie the economic problem or interest was centred on "all facts connected with the satisfaction of human wants through material means, attained by human effort."⁸⁰

It was from Hoxie's work that Hamilton developed his idea of "organic particularism,"⁸¹ but Hoxie's efforts along these lines proved no more fruitful than Hamilton's. Hoxie spent most of his career studying the trade union movement in an attempt to arrive at the "general principles" of union behaviour. In fact, all that emerges from Hoxie's work is a list of union types; "business unionism," which accepts the existing capitalist order; "uplift unionism," which seeks to elevate the intellectual and moral life of the worker; "revolutionary unionism," which repudiates the existing institutional order; and "predatory unionism," which is wholly pragmatic and involves the "ruthless pursuit of the thing in hand by whatever means" regardless of ethics or legal codes.⁸²

Hoxie attained no satisfactory generalisations concerning the forces determining these various patterns of union behaviour, but it is interesting to note that Hoxie, like Hamilton, had little faith that unions would act as a progressive force.⁸³ On this basis Hoxie criticised Veblen, who, he felt, had placed too much emphasis on the "materio-economic environment" as a "formative force."⁸⁴ It should, however, be noted that Hoxie's

80. Ibid., pp.748-755; and R.F. Hoxie, "On the Empirical Method of Economic Instruction," op.cit., p.488.

81. W.H. Hamilton, "The Development of Hoxie's Economics," op.cit., p.69.

82. R.F. Hoxie, Trade Unionism in the United States (New York, 1924), pp.45-51.

83. Ibid., pp.98-99, 134-135, 173-174.

84. Ibid., pp.350-375. See also P.J. McNulty, "Hoxie's Economics in Retrospect: The Making and Unmaking of a Veblenian,"

view of Veblen was based on Veblen's earlier and more deterministic writings.⁸⁵

Stewart's concerns were confined almost entirely to the monetary system, and particularly the role of credit and the Federal Reserve System. Stewart wished to develop an institutional or "functional" theory of money, but in fact never managed to fully develop such a theory. Stewart felt that the quantity theory approach to monetary theory was incorrect, as it ignored the institutional functioning of the banking and price systems, and the role of such things as the businessman's belief in the stability of the dollar in determining the actual purchasing power of money.⁸⁶ These concerns led Stewart to an attempt to develop indexes of prices and production in order to provide some statistical background for the discussion.⁸⁷ In Stewart's view the operation of the monetary and price system could only be understood by utilising a combination of statistical and institutional analysis together with a modern psychology not

History of Political Economy 5 (1973): 449-484.

85. R.F. Hoxie died in 1916 and his opinion of Veblen was based on works such as The Theory of Business Enterprise, which certainly put considerable emphasis on the "discipline of machine technology" in forming habits of thought. McNulty suggests that Hoxie was concerned to investigate what he saw as Veblen's ideas that machine technology would lead to workers developing different habits of thought and that workers would be a progressive force. It should be noted that by 1923, in Absentee Ownership, Veblen himself was using the concept of "business unionism" and did not regard unions as likely to engage in reform activities. See P.J. McNulty, op.cit.; L. Fishman, "Veblen, Hoxie, and American Labor," in D. Dowd, ed., op.cit., pp.221-226.

86. W.W. Stewart, "Social Value and the Theory of Money," Journal of Political Economy 25 (1917): 984-1002.

87. W.W. Stewart, "An Index Number of Production," American Economic Review 11 (1921): 57-70; W.W. Stewart, "Plan for Construction of an Index Number of Prices," Federal Reserve Board, Division of Analysis and Research, 1919.

based on hedonism.⁸⁸

Stewart felt that changes in the general level of prices could emerge from many sources, and were the result of diverse movements within the price system. Changes in the supply of bank credit were only a part of the story, fluctuations in the level of output being just as important. Stewart's major concern was with stabilising the level of output and prices, and to this end he argued that while the Federal Reserve may be useful in preventing panics, its policy weapons were hardly strong enough to control the volume of credit.⁸⁹ Stewart advocated the use of open market operations and direct controls on credit creation, but even with these extra weapons Stewart did not think monetary control would be sufficient. He therefore also advocated the development of a kind of Federal Reserve system to regulate the system of production, and was a champion of price control, citing the experience in the years of the First World War as evidence of its potential usefulness.⁹⁰

Attacks on the quantity theory also came from H.G. Moulton, who was an admirer of Veblen and worked with Hamilton on a number of projects. Moulton was to become the director of the Brookings Institution. Moulton's early work consisted of largely descriptive treatments of the financial system. For

88. W.W. Stewart, "Economic Theory--Discussion," American Economic Review 9, supp. (1919): 319.

89. W.W. Stewart, "Controlling Business Cycles--Discussion," American Economic Review 12, supp. (1922): 42. See also J. Dorfman, The Economic Mind in American Civilization 5: 416-417.

90. J. Dorfman, ibid., pp. 416-425; and W.W. Stewart, "Controlling Business Cycles--Discussion," op.cit., passim. For an interesting light on Stewart's views on the relative lack of effectiveness of monetary expansion as a cure for depression, see W.W. Stewart, Monetary Policy and Economic Prosperity; Testimony of Dr. W.W. Stewart Before the MacMillan Committee, July 3-4, 1930

Moulton the determination of the level of prices was "interwoven with the whole fabric of business enterprise," and control of price movements "must be envisaged in terms as broad as the nature of the problem which is to be controlled--that is, it must include all of the factors which influence prices in a financially organized society."⁹¹

Although Moulton agreed with Veblen that investment bankers had considerable discretionary power, he did not see Veblen's criticism of the use of that power as legitimate, as he pointed out that bankers could not control the business system in the way Veblen envisaged. For Moulton "bankers in general could not...control business in general."⁹² Moulton was to become something of an underconsumptionist, and the work he directed at Brookings, particularly the studies on America's capacity to produce and consume formed an important background to the debates of the 1930's and particularly to the work of institutionalists such as R.G. Tugwell.⁹³

Lubin's principal interest was in the field of labour relations, but he concerned himself with the detailed study of many particular problem areas, including retail distribution and the coal industry. Lubin criticised the waste and duplication of service in retail distribution, the over capacity in the coal industry and proposed the establishment of a government owned power corporation. Lubin also investigated the problems of

(New York, 1950); this discussion includes J.M. Keynes, E. Bevin, R. McKenna and others.

91. J. Dorfman, The Economic Mind in American Civilization, 4: 334-337; H.G. Moulton, Financial Organization and the Economic System (New York, 1938), pp.501-504.

92. H.G. Moulton, Financial Organization (Chicago, 1927), pp.745-747.

93. See below chapter 8.

technological unemployment and concluded that displaced workers were not absorbed into other employments rapidly or easily. On the issue of business cycles Lubin proposed public works programmes and unemployment insurance.⁹⁴ Much of Lubin's work shows the influence of Hamilton and the difficulties of Hamilton's problem centred, case-study approach.

Of course such approaches were not confined to those associated in some way with Hamilton, and other writers also produced variations on his method. W.E. Atkins and his colleagues at Washington Square College produced work which was almost entirely, and self-consciously, descriptive in nature.⁹⁵ Wesley Mitchell developed a method of "analytic description," which still concentrated on particular problems but emphasised the use of quantitative methods.⁹⁶

94. J. Dorfman, The Economic Mind in American Civilization, 5: 534-538. See also I. Lubin, The Economic Costs of Retail Distribution (Lansing, Mich., 1920); I. Lubin, Miners' Wages and the Cost of Coal (Washington, 1924) and I. Lubin, The Absorption of the Unemployed by American Industry (Washington, 1929). Lubin's expertise in guiding empirical investigations led him to become Commissioner of Labor Statistics during the New Deal era. Roosevelt also made use of his talents in many other areas.

95. W.E. Atkins, et al., Economic Behavior: An Institutional Approach, pp.iii-xii.

96. See below, chapter 6.

CHAPTER 6

WESLEY MITCHELL: INSTITUTIONALISM AND QUANTITATIVE ECONOMICS

At first glance W.C. Mitchell may not appear as an obvious candidate for inclusion among institutionalist writers. The work for which he is best known, that on business cycles, is fairly limited in scope and was a field that attracted many orthodox economists. Mitchell's emphasis on quantitative methods is also hardly typical of most institutionalist writers. Nevertheless, on a closer examination Mitchell's work shows clear similarities with that of other institutionalists.

Mitchell was a student at the University of Chicago where he came into contact with teachers as diverse as J.A. Laughlin, T. Veblen, and J. Dewey.¹ Mitchell also spent some time in

1. S. Kuznets, "Wesley Clair Mitchell, 1874-1948; An Appreciation," Journal of the American Statistical Association 44 (1949): 126-131; J. Dorfman, "Wesley C. Mitchell: Obituary," Economic Journal 59 (1949): 448-458; J. Dorfman, The Economic Mind in American Civilization, 3: 455-473. Further biographical information can be found in L.S. Mitchell, Two Lives (New York, 1953); and in the first part of A.F. Burns, ed., Wesley Clair Mitchell: The Economic Scientist (New York, 1952), pp.3-152. This includes essays by A.F. Burns, L.S. Mitchell, F.C. Mills, J. Dorfman, J.M. Clark, J.H. Willits, and S. Morgan.

Germany and Austria where he studied under J. Conrad of the German historical School, and C. Menger, a member of the Austrian school of marginalist economics.² The great contrasts between the positions of these various teachers appears to have had a considerable effect on Mitchell's thinking, and the final formulation of his own position.

I Mitchell on Scope and Method.

Mitchell's methodological position stemmed, in the first place, from a dissatisfaction with the work undertaken by other economists, and the influence of writers such as Laughlin, Veblen, and Dewey.

While Laughlin's influence is difficult to gauge, he encouraged students to use factual data, and set Mitchell off on his first major study: A History of the Greenbacks.³ Also worthy of note was Laughlin's attitude towards classical economics. While in most respects Laughlin was an extremely orthodox follower of classical theory he was of the opinion that any theory that could not explain the facts without reference to a considerable number of "disturbing causes" was an inadequate theory.⁴ On the other hand, Laughlin's dogmatism was such that he drove

2. J. Dorfman, "W.C. Mitchell: Obituary," op.cit., p.450.

3. J. Dorfman, "W.C. Mitchell: Obituary," op.cit., pp.449-451; W.C. Mitchell, "J. Laurence Laughlin," Journal of Political Economy 49 (1941): 875-881.

4. For an examination of Laughlin's influence on Mitchell and particularly Mitchell's early work see A. Hirsch, "Wesley Clair Mitchell, J. Laurence Laughlin, and the Quantity Theory of Money," Journal of Political Economy 75 (1967): 822-843; and the discussion between Bray Hammond, "The North's Empty Purse," American Historical Review 67 (1961): 1-18 and A. Hirsch, "Bray Hammond on Wesley Mitchell and the North's Empty Purse," Journal of Economic Issues 3 (1969): 206-212. See also A. Hirsch, "The American Setting and Wesley C. Mitchell's View of Traditional Economics," Journal of Economic Issues 1 (1967): 74-85.

his students to seek alternative views, and this brings up Veblen's role in shaping Mitchell's thought.

Veblen's influence on Mitchell was quite considerable, and Veblen provided many of the underpinnings of Mitchell's work. Of particular importance were the distinction between business and industry, the importance of habits of thought and the institutional structure, the key role of business enterprise, and the criticisms of orthodox economics.⁵ It is interesting that Veblen's criticisms of the tendency in orthodox theory to work in terms of "normalities" may well have reinforced Laughlin's criticism of theories that were only true other things being equal.

Mitchell claimed that Veblen's major contribution was in displaying the need for economics to find a new psychological basis,⁶ and a great deal of Mitchell's shorter works are taken up with this issue. As A.B. Wolfe has observed, even a " cursory reading of these papers will reveal...how deep and how durable the influence of Thorstein Veblen has been on Mitchell."⁷

Mitchell, however, was not entirely satisfied with Veblen's approach to economics. He found Veblen's work "not accurate in detail," and argued that Veblen let his "saturnine humor color

5. A.B. Wolfe, "Thoughts on Perusal of Wesley Mitchell's Collected Essays," Journal of Political Economy 47 (1939): 1-8; A.B. Wolfe, "Review of W.C. Mitchell's The Backward Art of Spending Money," Annals of the American Academy of Political and Social Science 195 (1938): 215-216. See also W.C. Mitchell, "Thorstein Veblen," The New Republic 60 (1929): 66-68; W.C. Mitchell, "Thorstein Veblen: 1857-1929," Economic Journal 39 (1929): 646-650; W.C. Mitchell, letter to J.M. Clark, reprinted in J.M. Clark, Preface to Social Economics (New York, 1936), pp.410-416; A.F. Burns, "Introductory Sketch," A.F. Burns, ed., W.C. Mitchell: The Economic Scientist, pp.3-15.

6. W.C. Mitchell, "Thorstein Veblen," op.cit., p.68.

7. A.B. Wolfe, "Review of W.C. Mitchell's The Backward Art of Spending Money," op.cit., p.215.

his scientific analysis."⁸ More importantly, Mitchell felt that Veblen's work was too speculative; that all he had managed to do was to replace one set of preconceptions with another, without investigating the importance of the factors "he dealt with and the factors he scamped."⁹ Veblen's failure to check his conclusions did not prevent Mitchell from regarding him as "the most interesting economist of his generation," but it led Mitchell towards the teachings of J. Dewey with his pragmatic emphasis and stress on the concrete.¹⁰

These influences on Mitchell were combined with those he came into contact with during his period in Europe. His reaction to the writers of the historical school was mixed, as he felt that they had provided some useful preliminary investigations,¹¹ but had failed to be analytical enough.¹² Mitchell was highly critical of R.T. Ely's attempts at a general statement of industrial evolution, calling his work "defective in plan, inaccurate in detail, and misleading in effect."¹³

On the other hand, Mitchell found the work of the more theoretical branch of the historical school, represented by writers such as Sombart, to be of much more interest.¹⁴ The

8. W.C. Mitchell, "Thorstein Veblen," op.cit., p.68.

9. W.C. Mitchell, letter to J.M. Clark, op.cit., p.412.

10. Ibid., pp.411-413; and W.C. Mitchell, "Thorstein Veblen," op.cit., p.68.

11. W.C. Mitchell, "Review of C. Bucher's Industrial Evolution," Journal of Political Economy 10 (1902): 288; see also W.C. Mitchell, Types of Economic Theory (New York, 1969), 2: 523-597.

12. W.C. Mitchell, Types of Economic Theory, 2: 574.

13. W.C. Mitchell, "Review of R.T. Ely's Studies in the Evolution of Industrial Society," Journal of Political Economy 12 (1903/4): 144-147.

14. W.C. Mitchell, "Sombart's Hochkapitalismus," reprinted in The Backward Art of Spending Money (New York, 1937), pp. 258-278.

work of G. Simmel Mitchell also found stimulating,¹⁵ but again Mitchell found these writers too speculative, and complained that Sombart's framework was "too hard and fast," and that his theories did not "grow out of his subject matter" so much as his subject matter grew out of them.¹⁶ Similar criticisms were leveled against the Austrian and marginal utility schools. Marginalist theory, to Mitchell, examined "what economic men ought logically to do" rather than "what they actually do."¹⁷ Mitchell criticised the lack of any historical or statistical input into these theories and argued that the theoretical grasp of an economist who ignored history was necessarily limited.¹⁸

Mitchell's background, then, appears to have given him a profound skepticism towards speculative theorising. Faced with such a vast array of competing theories, Mitchell's reaction was to turn to the concrete, to quantitative methods, and to what he called "analytic description" which appears to be a version of Veblen's notion of a "life history" recast in quantitative terms and applied to a particular problem. Mitchell argued that he was following the methodology of the natural sciences,¹⁹ but he seems to have thought of that method as essentially inductive. Many of Mitchell's statements on method are clearly examples of the inductivist fallacy that knowledge will somehow grow out of

15. W.C. Mitchell, letter to J.M. Clark, op.cit., p.414.

16. Ibid.; and W.C. Mitchell, "Sombart's Hochkapitalismus," op.cit., p.277.

17. W.C. Mitchell, "Wieser's Theory of Social Economics," in The Backward Art of Spending Money, pp.255-257. See also W.C. Mitchell, Types of Economic Theory, 2: 1-110.

18. W.C. Mitchell, "Wieser's Theory of Social Economics," op.cit., p.257; W.C. Mitchell, "Sombart's Hochkapitalismus," op.cit., p.278.

19. W.C. Mitchell, letter to J.M. Clark, op.cit., p.413.

accumulations of data. He disliked "preconceived" theoretical ideas, and his work shows an attempt to keep the influence of such ideas to a minimum.²⁰ Even at his most cautious Mitchell can be found arguing that

what we want is insight into the facts. We care about theories only as aids to attaining such insights. The plan of testing theories would indeed lead to work with facts but in an artificial order, and involving much repetition.²¹

Mitchell's quantitative method was not designed to test competing hypotheses. For Mitchell existing theories were simply suggestions of what factors might be important and should be statistically examined. At times he appears to argue that relative statistical "magnitude" would give some indication of importance.²² What is more, Mitchell felt that the use of statistical and quantitative methods would lead to the "recasting" of economic theory in an institutionalist and experimentalist mould.

The quantitative theorists usually find it necessary to formulate problems in a way different from that adopted by qualitative theorists; this technical necessity of restating problems promises to bring about radical changes in economic theory, in particular to make the treatment of economics more objective, to emphasise the importance of institutions and to promote the development of experimental technique... The mechanical view involves the notions of sameness,

20. W.C. Mitchell, "Quantitative Analysis in Economic Theory," in The Backward Art, pp.24-26; A.F. Burns and W.C. Mitchell, Measuring Business Cycles (New York, 1947), pp.8-10; T.C. Koopmans, "Measurement Without Theory," Review of Economic Statistics 29 (1947): 161-172. For the critique of induction see K. Popper, Conjectures and Refutations, pp.42-59.

21. W.C. Mitchell, Business Cycles: The Problem and Its Setting (New York, 1956), p.58; see also W.C. Mitchell, "The Present Status and Future Prospects of Quantitative Economics," in The Backward Art, p.39.

22. W.C. Mitchell, Business Cycles: The Problem and its Setting, p.59.

of certainty, of invariant laws; the statistical view involves the notions of variety, of probability, of approximations....Hence we must put our ultimate trust in observation. And as fast as we can raise our observations to a scientific level we must drop the cruder, yet not wholly valueless, approximations attained by the mechanical type of work.²³

The institutional element would be emphasised because institutions standardise behaviour and would therefore become the focus for quantitative work. Mitchell shared Veblen's views on social psychology and the institutional basis of behaviour, and he argued that the hedonistic postulates of orthodox theory must be abandoned. Mitchell argued that orthodox theory implied that men responded to pleasures and pains, these being the motives for human action, and that human nature was passive, men simply being "pushed and pulled about by the pleasure-pain forces of their environment."²⁴ Against this idea of human nature Mitchell, in his early work, referred to writers such as Veblen, E.A. Ross, and most of all to McDougall.²⁵ Mitchell pointed out the role played in human motivation by instincts, reflexes, tropisms, and by institutionally determined habits of thought and action. In some early papers Mitchell appeared

23. W.C. Mitchell, "Quantitative Analysis in Economic Theory," op.cit., p. 23-26; W.C. Mitchell, "The Prospects of Economics," in R.G. Tugwell, ed., The Trend of Economics (New York, 1924), pp.369-384.

24. W.C. Mitchell, "Bentham's Felicific Calculus," in The Backward Art, pp.190-193.

25. W.C. Mitchell, "Human Behavior and Economics: A Survey of Recent Literature," Quarterly Journal of Economics 29 (1914): 1-47; W.C. Mitchell, "The Rationality of Economic Activity," Journal of Political Economy 18 (1910): 97-113, and 197-216; W.C. Mitchell, "The Role of Money in Economic Theory," in The Backward Art, pp.149-176; W.C. Mitchell, "The Prospects of Economics," op.cit., pp.357-362, 369-378.

considerably impressed by Veblen's instinct of workmanship,²⁶ but the greatest number of references are to McDougall and his view that:

The great assumption of the classical political economy was that man is a reasonable being who always intelligently seeks his own good or is guided in all his activities by enlightened self-interest; and this was usually combined with... psychological hedonism...that is to say, good was identified with pleasure...But man is only a little bit reasonable, and to a great extent very unintelligently moved in quite unreasonable ways.²⁷

The fact that theories of hedonism or rational choice were not in line with the teaching of instinct theorists, such as McDougall, appears to have been Mitchell's principle reason for rejecting them. For Mitchell:

...economic theory rests, and has always rested, upon the concept of human nature posited by the theorist. In this respect, writers have differed solely in that their concept has sometimes been tacit, sometimes explicit, sometimes realistic in intent, sometimes purposely artificial. Men who prefer to employ purposely artificial concepts, of course, have nothing to learn from psychology. But such theorists will find the scientific significance of their work rated lower in proportion as the common sense concept of human nature becomes modified by evolutionary ideas.²⁸

Mitchell's position here appears to be that economics must rest on some view of what motivates human behaviour, and on a view that is "realistic" in the terms of contemporary psychology.

26. See W.C. Mitchell, "Human Behavior and Economics," op.cit., pp.23-29; and W.C. Mitchell, "The Prospects of Economics," op.cit., pp.382-383.

27. W.C. Mitchell, "The Rationality of Economic Activity, I," op.cit., p.100. For a critique of Mitchell's position at this point see A.A. Young, "The Trend of Economics, As Seen By Some American Economists," Quarterly Journal of Economics 39 (1924/25): 175-176.

28. W.C. Mitchell, "The Rationality of Economic Activity, I," op.cit., p.113.

Mitchell's emphasis on the need for an analysis that includes instinctive and institutional factors is closely related to his championing of the evolutionary or genetic method and the idea of cumulative causation.²⁹ The extremely close link between Mitchell's and Veblen's ideas at this stage need hardly be elaborated upon.

In his later work, however, Mitchell modifies his position, and these modifications appear to be the result of his growing attachment to quantitative methods, his disenchantment with deductive theorising, and, perhaps, to the criticism of instinct theory and the arrival of behaviourism.³⁰ Mitchell began to develop a position that implied a hostility to any theory built on hypothetical or untested notions about human motivation. Thus, Mitchell came to argue that through quantitative methods one could "try to frame illuminating generalisations about human behaviour, without the aid of suppositions concerning human aims."³¹ This was not to say that motives would be disregarded, just that "they will be treated as problems requiring study, instead of being taken for granted as constituting explanations."³²

29. Ibid., pp.111-113; and W.C. Mitchell, "Human Behavior and Economics," op.cit., passim; A.W. Coats, "Methodological Controversy," pp.209-212; A.B. Wolfe, "Thoughts on Perusal of Wesley Mitchell's Collected Essays," op.cit., pp.2-13; see also W.C. Mitchell, "Motives in Economic Life--Discussion," American Economic Review 8, supp. (1918): 235-237.

30. See W.C. Mitchell, "The Role of Money in Economic Theory," op.cit., passim; and also A.W. Coats, "Methodological Controversy," pp.208-219; A.B. Wolfe, "Thoughts on Perusal of Wesley Mitchell's Collected Essays," op.cit., pp.8-13; A.A. Young, op.cit., pp.176-183.

31. W.C. Mitchell, "Wieser's Theory of Social Economics," op.cit., p.254.

32. W.C. Mitchell, "Quantitative Analysis in Economic Theory," op.cit., p.27.

Unfortunately, Mitchell is not always clear over his position. He criticised those authors who had attempted to separate economics from psychological theories of motive by developing theories of rational choice and utilising price as a measure of the relative strength of desires, by characterising their theories as "countinghouse" economics; economics that uncritically accepted the businessman's point of view.³³ Yet Mitchell himself admits that the institution of the money economy resulted in people behaving according to an "economic rationalism" and notes that:

Because it thus rationalizes economic life itself, the use of money lays the foundation for a rational theory of that life. Money may not be the root of all evil, but it is the root of economic science.³⁴

Mitchell's exact differences with those of the orthodox school, whom he attacked, are sometimes difficult to discern. Mitchell's major points appear to be that the orthodox economists forget that the money economy, and therefore economic rationalism, is simply an institutional product rather than something fixed and unchanging,³⁵ and that the orthodox economists concentrate solely on the "pecuniary aspects life," whereas economics should have regard to both the processes involved in making and spending money, and the technical processes involved in making

33. W.C. Mitchell, "The Role of Money in Economic Theory," op.cit., p.160, 163.

34. Ibid., p.171.

35. Ibid., pp.169-171; see also W.C. Mitchell, "Quantitative Analysis in Economic Theory," op.cit., pp.26-29; and W.C. Mitchell, "The Role of Money in Economic History," Journal of Economic History 3/4, supp. (1943/44): 61-67. For commentaries on this view see Z.C. Dickenson, "Quantitative Methods in Psychological Economics," American Economic Review 14, supp. (1924): 117-124; and the discussion of this paper by A.B. Wolfe and F. Knight.

goods.³⁶

Mitchell, unlike Veblen, was also concerned with the problems of reform and policy making. Following Dewey, Mitchell came to an experimentalist position, and while he was aware of the difficulties of "experiments" with policy, he argued that such an approach held out "dazzling" prospects.³⁷ For Mitchell, the economist

...should aim, not at finding "a solution," but at finding methods by which communities can carry on intelligently the process of working out the endless series of detailed solutions with which they must keep experimenting.³⁸

Mitchell felt that quantitative and experimental approaches could give a great deal to the attempt to achieve higher levels of social welfare by the quantitative study of actual conditions which could locate and study social problems. To this end Mitchell advocated the setting up of governmental research institutes to organise "deliberate and systematic study" of social problems.³⁹

The difficulty here is that, as Wolfe points out, a concern with welfare must carry with it some notion of human motives, desires and ends, exactly those subjective factors that Mitchell

36. Ibid., pp.172-176. F. Fetter, with some justice, classified Mitchell as a "price" as opposed to a "welfare" economist due to his emphasis on objectively observable phenomena. See F. Fetter, "Price Economics Versus Welfare Economics: Contemporary Opinion," American Economic Review 10 (1920): 723-726, and 732-733.

37. W.C. Mitchell, "Quantitative Analysis in Economic Theory," op.cit., p.32.

38. W.C. Mitchell, "Intelligence and Economic Evolution," in The Backward Art, p.127.

39. Ibid., pp.131-133; see also W.C. Mitchell, "Research in the Social Sciences," in The Backward Art, pp.72-82; and W.C. Mitchell, "The Social Sciences and National Planning," ibid., pp.96-102.

had argued should not be taken as given.⁴⁰ Mitchell, on occasion, suggests that some "objective" measure of welfare can be set up. Thus, Mitchell states that it "is feasible even now to set up a tentative criterion of economic welfare:"

Such accounting as is possible runs in terms of heightening or lowering the community's vitality... But its successful prosecution presupposes considerable knowledge of how economic processes actually work at present... In the interests of social welfare we need clearer insights into the industrial process of making goods, the business process of making money, and the way in which both sets of activities are related to each other and to the individual's inner life.⁴¹

In a slightly later essay Mitchell is more definite, and more optimistic that quantitative techniques can give an objective criterion of welfare. Hence:

Welfare will mean not merely an abundant supply of serviceable goods, but also a satisfactory working life filled with interesting activities. At present welfare as thus conceived is rather vague, but it is capable of being made objective and definite in reference to such matters as food, clothing, shelter, sanitation, education, fatigue, leisure. And this realm of the definite in welfare will be expanded steadily by quantitative methods, so that we shall develop a criterion of welfare applicable to many lines of effort.⁴²

Mitchell advocated the setting up of a National Planning

40. A.B. Wolfe, "Thoughts on Perusal of Wesley Mitchell's Collected Essays," op.cit., pp.13-25.

41. W.C. Mitchell, "The Role of Money in Economic Theory," op.cit., pp.174-175. See also W.C. Mitchell, "Facts and Values in Economics," The Journal of Philosophy 41 (1944): 212-219. It is interesting to compare this attitude with W.C. Mitchell, "Political Science, Political Economy, and Values--Discussion," American Economic Review 34, supp. (1944): 48-50; where Mitchell states that certain liberal programmes of reform are little more than "pragmatic romance," and refers to Veblen's earlier and deterministic analysis of the use of machine process and associated habits of thought as the basic cause of social conflict. This can be interpreted as Mitchell's objection to what he saw as "wishful thinking" or romanticism, instead of a more objective and hardheaded analysis.

42. W.C. Mitchell, "The Prospects of Economics," op.cit., p.381.

Board to help "guide the evolution" of institutions, but was concerned that such general planning should be democratic in character. In order to ensure this Mitchell altered his position on the aims of social reform, and argued that "in a democratic country national planners would have to serve as an agency for accomplishing what the majority desired."⁴³ Mitchell was aware that the "national scale of values" is seldom "crystallized in a single dominant pattern," and that various desires or ends may conflict with each other.⁴⁴ Mitchell retreats into a position shared by many other institutionalists, that fuller information would help overcome these difficulties. National planners, then:

...by throwing light upon the consequences that different lines of action would produce...could contribute much toward making social valuations more rational. Perhaps in the long run the chief gain from trying to plan national policies in the light of their probable consequences would be the attainment of a more valid scale of social values than now prevails among us.⁴⁵

From the above it should be clear that Mitchell's view of economics was that it should be "one of the sciences of human behaviour," and it should therefore have close relationships with other social sciences, particularly psychology. This view of economics was closely linked in Mitchell's mind with his other propositions; that economics should make much greater use of quantitative methods, that it should be concerned with serviceability and social welfare, that it should take account of

43. W.C. Mitchell, "Intelligence and Economic Evolution," op.cit., p.135.

44. Ibid., pp.134-135.

45. Ibid., p.135; see also F.G. Hill, "Wesley Mitchell's Theory of Planning," Political Science Quarterly 72 (1957):100-118.

institutional factors, and the growth and change of institutions. The links between these ideas and those of Veblen's are clear, except that Mitchell took Veblen's emphasis on matter-of-factness more seriously than Veblen himself ever did, and Mitchell was also influenced by Dewey's reformism and pragmatism.

II Mitchell and the Business Cycle.

Mitchell's concern with business cycles was something that developed gradually from several sources; his concern with social problems, his instrumental view of economics, his early investigations, inspired by Laughlin, into money and prices, and his Veblenian insistence on the distinction between business and industry. Mitchell felt that orthodox economists had not been able to say very much about economic fluctuations, and that the business cycle could provide a fruitful area of study if a quantitative and institutional approach was used.⁴⁶

In an early paper on the quantity theory Mitchell concluded that:

The course of prices in the United States, then, presents a case which cannot be explained by the quantity theory. Prices fell while the supply of money was increasing...Thus the results of the inductive study confirm the conclusions arrived at by theoretical examination. Studied from either view, the theory seems to be defective.⁴⁷

46. See A. Burns, "Introductory Sketch," in A. Burns, ed., W.C. Mitchell: The Economic Scientist, pp.10-26; J. Dorfman, "Personal Sketch," ibid., pp.127-133; P.T. Homan, "Place in Economic Thought," ibid., pp.178-192; M. Friedman, "The Economic Theorist," ibid., pp.239-245; J.A. Shumpeter, "The General Economist," ibid., pp.329-331; W.C. Mitchell, "Making Goods and Making Money," in The Backward Art, pp.143-148. See also A. Hirsch, "Wesley Clair Mitchell, J. Laurence Laughlin, and the Quantity Theory of Money," op.cit., pp.831-838.

47. W.C. Mitchell, "The Quantity Theory of the Value of Money," Journal of Political Economy 4 (1895/6): 165; see also W.C. Mitchell, "Review of I. Fisher's, The Purchasing Power of

Mitchell's point here was that the price level could be affected by conditions of production as well as by the demand and supply of money.⁴⁸ Mitchell was later to criticise this early essay but remained critical of the quantity theory as an adequate explanation, pointing out that orthodox theorists did not usually specify the mechanisms through which money supply was supposed to affect prices.⁴⁹

Mitchell's further investigations into money and prices conducted in A History of the Greenbacks, and Gold Prices and Wages, led him towards an institutional theory of the money economy with an emphasis on process, evolution, and cumulative change. Indeed, Mitchell planned to write a book expressing his theory of the money economy, which was not originally intended to be a statistical work.⁵⁰

My rather vague notions gradually crystallized into the idea that the important matter to understand about money is the money economy--that is the cultural significance of the highly organised groups of pecuniary organisations, how they have developed since the middle ages, how they have gained a quasi-independence, and how they have reacted upon the activity and the mind of their makers.⁵¹

Money," Political Science Quarterly 27 (1912): 160-164; and A. Hirsch, "Wesley Clair Mitchell, J. Laurence Laughlin, and the Quantity Theory of Money," op.cit., pp.830-832.

48. W.C. Mitchell, "The Quantity Theory of the Value of Money," op.cit., pp.139-145. In this view Mitchell is following Laughlin.

49. See W.C. Mitchell, "The Real Issues in the Quantity-Theory Controversy," Journal of Political Economy 12 (1903/4): 405-407; W.C. Mitchell, A History of the Greenbacks (Chicago, 1960), pp.207-208; M. Friedman, "The Economic Theorist," in A. Burns, ed., op.cit., p.241; A. Hirsch, "Mitchell, Laughlin, and the Quantity Theory," op.cit., pp.833-834.

50. A. Burns, "Introductory Sketch," A. Burns, ed., op.cit., p.20.

51. L.S. Mitchell, "Personal Sketch," in A. Burns, ed., op.cit., p.66.

Mitchell, however, was never quite satisfied with his efforts in this direction and he "began to look back on economic theory from the viewpoint of a particular problem,"⁵² the problem that Mitchell chose being that of the business cycle. As Burns has mentioned, Mitchell's collection of data for his work on the Greenbacks gave him "a lively impression of the magnitude and diversity of economic fluctuations,"⁵³ and this Mitchell combined with his institutional viewpoint, arguing that the business cycle was a product of the institutions of a money economy, and therefore due to forces within the system. Mitchell argued that:

Economic history shows that when any nation develops the money economy to such a point that a large part of its people get their livings by making and spending money incomes, its industry becomes subject to more or less regular alternations of feverish activity, financial crisis, and industrial depression.⁵⁴

This approach to the business cycle, with its emphasis on the institutions of the money economy, was probably largely due to Veblen's influence. Mitchell considered the business cycle as an example of an economic process, a cumulative sequence of events, that could not be adequately approached with the tools of equilibrium analysis.⁵⁵ On the other hand, institutional and statistical analysis could, according to Mitchell, be successfully utilised in the approach he named "analytic des-

52. Ibid., p.66. See also W.C. Mitchell's letter to J.M. Clark, in Preface to Social Economics, pp.93-99.

53. A. Burns, "Introductory Sketch," in A. Burns, ed., op.cit., p.18.

54. W.C. Mitchell, "Making Goods and Making Money," op.cit., p.146.

55. M. Friedman, "The Economic Theorist," in A. Burns, ed., op.cit., pp.240-242.

cription."⁵⁶

Mitchell arrived at the idea of analytic description from a number of directions. First, he felt that the wide variety of explanations of cycles provided by speculative theorists demonstrated the need for quantitative analysis to disentangle the relative importance of the various factors, to discover the leads and lags of these variables, and such regular sequences as may exist.⁵⁷ Second, Mitchell argued that any attempt to pinpoint a single principle causal factor was perhaps a mistake. For Mitchell the cause of cycles was to be found in the operation of the whole complex of institutions known as the money economy and: "A theory of business cycles must therefore be a descriptive analysis of the cumulative changes by which one set of business conditions transforms itself into another set."⁵⁸ Mitchell also argued that "each new cycle presents points of novelty" and that "this is precisely what is implied by saying that the process of economic activity within which business cycles occur is a process of cumulative change."⁵⁹

In a later work, however, Mitchell, along with A. Burns, introduced the concept of a "reference cycle" to allow him to abstract from the variations of specific cycles and arrive at some generalisation about the course of a cycle. It should be

56. W.C. Mitchell, Business Cycles: The Problem and Its Setting, pp.1-199, 357-360. See also A.W. Coats, "Methodological Controversy," pp.301-323.

57. W.C. Mitchell, Business Cycles: The Problem and Its Setting, pp.47-49 and 53-54.

58. Ibid., pp.54-57; and W.C. Mitchell, Business Cycles (Berkeley, 1913), p.449.

59. W.C. Mitchell, Business Cycles, p.449.

understood that the reference cycle was not an attempt to explain or predict cycles but an attempt to compare specific cycles in terms of leads and lags with some reference point.⁶⁰ Mitchell here is still primarily concerned with the sequence of events rather than with causes, and his findings were that: "The idiosyncrasies of individual cycles tend to vanish, the average patterns of the same series look much alike in different samples of cycles, the patterns of different series become sharply differentiated, and the relations among the series persist with great regularity from one sample of cycles to the next." The conclusions being that the forces that produce cycles have considerable regularity and that there is enough of a "family resemblance" between cycles to make generalisations about the sequence of events.⁶¹

Thus, although the introduction of the idea of a reference cycle perhaps modified Mitchell's insistence on cumulative change and variation, the aim was still not so much to identify any principle cause as to understand the processes involved in the cyclical movement of the economy.⁶² Mitchell did allow that some factors may be more important than others, and argued that these factors could be identified through an historical account

60. W.C. Mitchell, Business Cycles: The Problem and Its Setting, pp.382-383; W.C. Mitchell and A. Burns, Measuring Business Cycles (New York, 1947), pp.24-26; A. Hansen, Business Cycles and National Income (New York, 1951), pp.406-410; A.W. Coats, "Methodological Controversy," pp.313-318.

61. W.C. Mitchell and A. Burns, op.cit., pp.480, 506-508.

62. W.C. Mitchell, Business Cycles: The Problem and Its Setting, p.55. Friedman suggests that Mitchell's use of the idea of cumulative causation became limited to within a business cycle. See M. Friedman, op.cit., p.256; and also P.T. Homan, Contemporary Economic Thought, p.405; and A. Gruchy, Modern Economic Thought, pp.300-301, 321.

of the development of the phenomenon in question.⁶³ Mitchell here, is admitting that there is a need for "a pattern which should enable us to discuss the wide diversity of processes involved in business cycles without falling into confusion;"⁶⁴ and the basis of the pattern that Mitchell chose is the recognition "that profit making is the central process among the congeries that constitute the activities of a business economy."⁶⁵

In his idea of analytic description Mitchell explicitly rejects the usefulness of the concept of equilibrium. The concept of equilibrium is only useful, according to Mitchell, when dealing with static analysis. What is more, such concepts as a "normal state of trade," "equilibrium positions," or "natural rates of interest" are not observable and hence of little use.⁶⁶ On the other hand, the idea of a "balance" is used by Mitchell in the sense of locating items that "stand opposite each other" and tracing the consequences of any imbalance. Mitchell, however, warned against any assumption that "these consequences will always be of the sort which tend to restore balance."⁶⁷

To summarise Mitchell's position; he argued that the correct approach to the investigation of business cycles was statistical

63. W.C. Mitchell, Business Cycles: The Problem and Its Setting, pp.55-60.

64. Ibid., p.186.

65. Ibid., p.183.

66. Ibid., pp.186-187; it has been claimed that Mitchell's later use of the reference cycle was in some sense a move toward an analysis of a "normal" cause of events. See E. Ames, "A Theoretical and Statistical Dilemma--the Contributions of Burns, Mitchell, and Frickey to Business Cycle Theory," Econometrica 16 (1948): 356-357. See also A.W. Coats, "Methodological Controversy," pp.314-318. Coats argues that Mitchell's reference cycle cannot be properly interpreted as a "normal" cycle.

67. W.C. Mitchell, Business Cycles: The Problem and Its Setting, pp.187-188.

and institutional; that the leading question should be "How do business cycles run their course" rather than "What causes business cycles;"⁶⁸ that equilibrium analysis, as usually understood, was of little value; and that the analysis should be organised around "a clue provided by the business system" which was "the prospects of profits."⁶⁹ As Hansen has expressed it:

Thus whatever factors affect profits come within the sweep of the analysis. The factors of chief significance are: (1) the prices which constitute business receipts, (2) the prices which constitute business expenses, (3) the value of sales, (4) currency to make payments, (5) the availability of bank credit. We must know what fluctuations these factors undergo, and we must follow their interactions to see how they affect the prospects of profits.⁷⁰

The analytic description of the course of a business cycle finally arrived at by Mitchell concentrates heavily on the course of business costs, prices and their effect on profits. Starting with the recovery phase from a depression, Mitchell argues that "the very conditions of business depression beget a revival of activity." This is because:

Among the ultimate effects of a period of hard times...are the following: a lessening in the prime and supplementary costs of manufacturing commodities, a reduction in the stocks of goods held by wholesale and retail merchants, a liquidation of business debts, low rates of interest, a banking position which forces an increase of loans, and an increasing demand among investors

68. Ibid., p.470.

69. Ibid., pp.469-474; and W.C. Mitchell, "The Problem of Controlling Business Cycles" in L. Edie, ed., The Stabilization of Business (New York, 1923), p.13.

70. A. Hansen, Business Cycles and National Income (New York, 1951), p.397.

for corporate securities.⁷¹

Mitchell points out that all these conditions are conducive to a revival of business. Costs would fall with declining raw material prices and interest rates. Efficiency would improve due to workers seeking to retain their jobs, and with "closer economy" exerted by businessmen. Overheads would be reduced by business reorganisation of firms in difficulty, by the reduction of rentals, the refunding of loans, the working off of bad debts, and the writing down of depreciated properties.⁷²

At the same time Mitchell saw the revival of trade being spurred by population growth, and the arrival of new tastes and new products.⁷³ Of greater importance, perhaps, was the stimulation provided to manufacturing business when retail and wholesale firms ceased running down their inventories and started placing new orders with manufacturers,⁷⁴ but "most important of all" is the revival in business investment and particularly in construction. This Mitchell saw as being due to the gradual drying up of the opportunities to buy into old businesses at favourable prices, the decline in business "timidity," the low rates of interest on long term bonds, the favourable terms which can be gained on contracts for construction, and the accumulated

71. W.C. Mitchell, Business Cycles, p.452; see also W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., p.15.

72. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., pp.33-34; and W.C. Mitchell, Business Cycles, pp.562-569.

73. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., p.34; and W.C. Mitchell, Business Cycles, p.566.

74. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., p.34; and W.C. Mitchell, Business Cycles, p.565.

technical improvements which new plants could take advantage of.⁷⁵

The most interesting point to note here is the fact that although Mitchell stresses the internal nature of the recovery, and depreciates explanations that rely on external events, he gives a role to "accumulated technical improvements," changes in taste, and new products, that would hardly seem to be endogenous variables.⁷⁶

Once a recovery has begun it gathers momentum due to the close linkages between different industries, and because of a general revival of business optimism which "helps breed conditions which both justify and intensify it."⁷⁷ Mitchell sees this movement out of depression becoming cumulative, and eventually reaching a point where "the impetus toward activity" is "carried out from the centers to all corners of the land."⁷⁸

In the early stage of recovery prices will not tend to rise,⁷⁹ but as the economy proceeds there comes a point where any further expansion in output will be accompanied by an increase in prices, as excess capacity disappears and expansion of output imposes additional supplementary and prime costs on the producer. Also, the revival of business helps the reestablishment of the strategic position of the seller and of price fixing combinations.⁸⁰

75. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., p.34; and W.C. Mitchell, Business Cycles, pp.566-567.

76. For comment on this see A. Hansen, op.cit., p.399.

77. W.C. Mitchell, Business Cycles, pp.453-455.

78. Ibid., p.456.

79. Ibid., pp.457-458.

80. Ibid., pp.458-459.

As long as this advance in prices is "gradual and well balanced" it will not retard the recovery. Indeed, according to Mitchell it may stimulate the recovery further as buyers "become eager to lay in large stocks or to make long contracts while quotations are still moderate and terms are still easy." Thus, the anticipation of further advances in prices leads to the growth of demand despite the rising price level.⁸¹

This rise in prices spreads and becomes cumulative, and although Mitchell is clear that the advance in prices is not uniform over all lines of activity, most businesses can at least defend their profit margins and, overall,

larger profits result from these divergent price fluctuations, coupled with the greater physical value of sales. For while the prices of raw materials and of wares bought for resale usually, and the prices of bank loans often, rise faster than selling prices, the prices of labor lag behind, and the prices that make up overhead costs are mainly stereotyped for a time by old agreements regarding salaries, leases, and bonds.⁸²

The increase in profits leads to "a marked expansion of investments" which reinforces the upward movement. This suggests that the movement will continue on upwards, as "every increase in the physical value of trade" causes other increases, every "convert to optimism" makes new converts, and "every advance of prices" furnishes incentive for further advances.⁸³ However, for the continuance of prosperity "it is indispensable that a certain balance be maintained between the fundamental processes which

81. Ibid., pp.459-460.

82. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., p.18.

83. Ibid., pp.18-19.

constitute the activity of the system," and any serious "mal-adjustment" can push the system onto a cumulative downward path. Mitchell notes that "the regularity with which this happens suggests that prosperity itself has other effects than those which tend to sustain and intensify business activity."⁸⁴

Prosperity, then, breeds certain "stresses" which eventually result in a downturn. Among these stresses Mitchell emphasises the increasing costs of doing business due to increases in supplementary costs. For instance, building a new plant in the midst of a period of prosperity involves high construction costs and high interest charges, or if leases expire or bonds fall due higher rents or interest charges must be borne.⁸⁵ Prime costs also advance in that old machinery and less efficient workmen must be put to work, overtime must be paid, and wages begin to rise.⁸⁶ The cost of materials also begins to rise more rapidly,⁸⁷ and the combination of these factors means that buying prices begin to "creep up on selling prices" during periods of prosperity.⁸⁸

The cost of loans goes up and lenders may refuse to further extend themselves. This results in many projects being relinquished or postponed,⁸⁹ and this difficulty in financing new projects intensifies an "earlier acting" check on investment goods industries. This check is based on the idea of the replace-

84. Ibid., pp.20-21.

85. W.C. Mitchell, Business Cycles, pp.475-476.

86. Ibid., pp.476-480.

87. Ibid., p.481. See also W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., pp.21-23.

88. W.C. Mitchell, Business Cycles, p.481.

89. Ibid., pp.485-487 and 489-492.

ment demand for investment goods and is similar to the acceleration theories of investment developed by J.M. Clark. As soon as the rate of increase in the physical quantity of products slackens, the business of the construction and investment goods industries will tend to decline.⁹⁰

Disaster, according to Mitchell, could only be prevented by continual increases in prices to offset the increases in costs and the encroachment on profits, but "it is impossible to keep selling prices rising for an indefinite time," first because the banks eventually run out of reserves and have to refuse loans "upon any terms," and second because of the "inequalities" involved in the upward movement of prices.⁹¹ Some industries cannot raise prices so easily as others, because of law, regulation by commission, because of long term contracts, or even because of custom. Some industries may have expanded during the upswing but find that the growth of demand for their output has become repressed by the rising prices.⁹² Thus:

As prosperity approaches its height...a sharp contrast develops between the business prospects of different enterprises. Many, probably the majority, are making more money than at any previous stage of the business cycle. But an important minority, at least, face the prospects of declining profits. The more intense prosperity becomes, the larger grows this threatened group.⁹³

As soon as business faces the prospect of declining profits the "critical point" in the cycle is reached. A decline in

90. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., pp.23-26.

91. Ibid., p.26; W.C. Mitchell, Business Cycles, pp.492-496.

92. W.C. Mitchell, Business Cycles, pp.496-502.

93. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., p.28.

profits threatens the security of outstanding credits which are based on the capitalised value of present and future profits.⁹⁴ Cautious creditors refuse the renewal of old loans and begin to press for settlement of outstanding accounts, and in this manner "prosperity ultimately brings on conditions which start a liquidation of the huge credits which it has piled up."⁹⁵ This liquidation in turn may merge into a crisis or even a panic.

Once a liquidation begins it spreads rapidly, as one firm under pressure from its creditors will put pressure on their own debtors. Businesses concentrate on maintaining solvency rather than pushing their sales so the volume of new orders drops off.⁹⁶ Expansion may give way to contraction without a "violent wrench," but a downturn in the economy may lead to a panic if the process of liquidation meets a "weak link" and some "conspicuous enterprise" is forced into bankruptcy.⁹⁷ Such a bankruptcy may spread alarm among the public and this in turn may force banks into difficulties if there is a sharp increase in the demand for repayment of deposits. If the banks cannot meet the demands placed upon them then the crisis may turn into a panic.⁹⁸

If banks refuse, under stress, to expand their loans, or actually contract their lending, interest rates are forced to extremely high levels and this causes "forced suspensions and

94. Ibid., pp.28-29; and W.C. Mitchell, Business Cycles, pp.502-511. This part of Mitchell's analysis has a close similarity to Veblen's treatment of cycles.

95. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., p.29.

96. Ibid., p.29.

97. Ibid., p.30.

98. Ibid., pp.30-31. See also W.C. Mitchell, Business Cycles, pp.514-550 for a close description of particular panics.

bankruptcies." The severe financial pressure leads to workmen being discharged and as this spreads the value of purchasing power also declines and with it the demand for both current output and the demand for raw materials, capital goods, and construction. This downward movement again becomes cumulative.⁹⁹

Competition for what business remains becomes fierce in the contraction and results in a fall in the level of prices, and while the fall in prices reduces profits, the decline in prices and the volume of trade begin again the processes which will gradually overcome the depression.¹⁰⁰

The points to note about this description of the cycle are, first, its internalist nature. Despite the exceptions mentioned above Mitchell refuses to analyse cycles in terms of outside shocks or disturbances. The cycle is created by the institutional setting which both generates cumulative movements and provides the floor and ceiling, the turning points, of the cumulative movements. Second, the relative lack of importance that Mitchell gave to monetary factors. Mitchell did allow that the supply of money may affect the interest rate and that a depression may be shorter if the supply of gold is increased, but by and large Mitchell tended to regard money supply as a passive factor.¹⁰¹ This is perhaps made clearer in Mitchell's later work Business Cycles: The Problem and Its Setting, where Mitchell returns to the quantity theory and argues that an increase in

99. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., pp.30-32; W.C. Mitchell, Business Cycles, pp.556-558.

100. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., pp.33-35; W.C. Mitchell, Business Cycles, pp.558-569.

101. W.C. Mitchell, Business Cycles, p.562; A. Hirsch,

the price level or the number of transactions may result in an increase in money supply. Thus:

All the time businessmen have an incentive to buy as many goods as they can resell at a profit, and to charge prices as high as the traffic will bear. In depression, revival, moderate prosperity and mild recessions, the effective limit upon their transactions is set by commercial demand. Money and banking conditions would permit a larger volume of business.¹⁰²

Mitchell is arguing that monetary conditions are only really important in "intense booms" when the money supply may set a limit, but money supply cannot be seen as the cause of cycles. This, of course, is closely connected with Mitchell's view that cycles cannot be blamed on any external factor and that the existence of cycles must be taken as "evidence that the automatic functioning of our business system is defective." Mitchell also argued that the problem of cycles was becoming worse due to the growing tendency of large corporations not to reduce their prices in depressions, making the "automatic process of recovery" less "prompt and effective."¹⁰³ This notion of the business system being defective was not confined in Mitchell's thought to business cycles. Although cycles took most of his

"Mitchell, Laughlin, and the Quantity Theory of Money," op.cit., pp.836-838.

102. W.C. Mitchell, Business Cycles: The Problem and Its Setting, pp.128-139, particularly pp.137-138. Hirsch suggests that the position Mitchell took in this work was partly a reaction to I. Fisher's criticism of Mitchell's Business Cycles. See A. Hirsch, "Mitchell, Laughlin, and the Quantity Theory of Money," op.cit., pp.837-838; and I. Fisher, "The Business Cycle Largely 'A Dance of the Dollar'," Journal of the American Statistical Association 18 (1923): 1024-1028; and I. Fisher, "Our Unstable Dollar and the So-Called Business Cycle," ibid., 20 (1925): 179-202.

103. W.C. Mitchell, "The Social Sciences and National Planning," op.cit., pp.91-92.

attention, Mitchell also looked at several other deficiencies in the system.

Mitchell, on occasion, argued that even at the peak of prosperity actual production "falls short of what production might be if we could make use of all our facilities." Mitchell quotes figures that suggest that with the available equipment and practices production could be increased by 25%, while if "best current practices" were utilised in all industries production could be increased by some 60%.¹⁰⁴ Mitchell also regarded small scale and lack of cooperation, or the "planlessness" of the system as a whole, as a source of inefficiency, although he was also aware of the dangers of monopoly. To Mitchell, then, the business system placed certain "overheads" on the operation of industry.¹⁰⁵ On the consumption side Mitchell also found inefficiencies in the form of lack of knowledge among housewives, and further difficulties in the desire for distinction, the role of customary or conventional values, and business advertising in moulding consumption choices.¹⁰⁶

For Mitchell the cure for business cycles and these other problems was to be found in some kind of national planning and government sponsored research institutes, designed to "give full scope to modern engineering technique" and to encourage the adjustment of every industry "to every one of the industries with

104. Ibid., pp.93-94.

105. W.C. Mitchell, "Making Goods and Making Money," op.cit., p.147.

106. W.C. Mitchell, "The Backward Art of Spending Money," in The Backward Art of Spending Money, pp.3-19. See also W.C. Mitchell, Business Cycles: The Problem and Its Setting, p.165.

which it interlocks." Mitchell felt that if this was done "the processes of making useful goods" would "run smoothly from the production of raw materials to the delivery of the finished product at the door of the ultimate consumer."¹⁰⁷

The national planning board in Mitchell's view should only be an advising body, but at the same time it should attempt to develop national plans rather than "piecemeal" plans, as the latter, in Mitchell's view, "is defective in principle" as it ignores the close interrelatedness of social processes.¹⁰⁸

Mitchell tended to avoid any precise policy proposals and to satisfy himself with general statements about the desirability of planning and the malleable nature of human institutions: "For since the money economy is a complex of human institutions, it is subject to amendment." For Mitchell, what was required was more study and more research into "just how the rules of our own making thwart our wishes and to change them in detail or change them drastically as the case may require."¹⁰⁹

Almost the only definite proposal concerning planning that Mitchell made was that there should be some "long range planning" of counter-cyclical public works and that such long range

107. W.C. Mitchell, "The Prospects of Economics," op.cit., p.379.

108. W.C. Mitchell, "Intelligence and Economic Evolution," op.cit., pp.126-136; and "The Social Sciences and National Planning," op.cit., pp.98-102. See also "Statistics and Government," and "Institutes for Research in the Social Sciences," in The Backward Art, pp.41-57, 58-71.

109. W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., pp.52-53; see also the committee findings in Recent Social Trends in the United States (New York, 1933), pp.ixx-ixxv.

planning should be extended from public to private enterprise.¹¹⁰
 Just how this was to be done, what principles or criteria were to be used, and exactly how the behaviour of private firms was to be altered Mitchell never specified, but then he was of the opinion that

As the task of planning economic relations is faced in detail, it is not unlikely that modest schemes will be devised which make the present organisation work more steadily. It is more in line with past experience to anticipate a long series of cumulative improvements which will gradually transform existing economic organisation into something different, than to anticipate a sudden revolution in our institutions.¹¹¹

III Mitchell and a Theory of Business Cycles.

Mitchell's work on business cycles has been the subject of considerable criticism, principally on methodological grounds. Several authors have claimed that Mitchell failed to provide any adequate theoretical framework for his statistical investigations,¹¹² and perhaps Koopmans goes furthest in this respect; arguing that Mitchell's

110. See W.C. Mitchell, "The Problem of Controlling Business Cycles," op.cit., pp.35-53; W.C. Mitchell, "The Crisis of 1920 and the Problem of Controlling Business Cycles," American Economic Review 12, supp. (1922): 20-32. See also Mitchell's criticisms of Robbins in W.C. Mitchell, "Robbins, The Great Depression," Quarterly Journal of Economics 49 (1934/35): 503-507.

111. "Committee Findings," Recent Social Trends, p.xxxi.

112. See L. Robbins, The Nature and Significance of Economic Science, pp.102-103; T.C. Koopmans' "Measurement Without Theory," op.cit., pp.161-172; W. Isard and L. Moses, "Fickey, Burns and Mitchell, and the Transport-Building Cycles," Review of Economics and Statistics 32 (1950): 347-351; E. Ames, "A Theoretical and Statistical Dilemma," op.cit., pp.347-369. E.S. Shaw, "Burns and Mitchell on Business Cycles," Journal of Political Economy 55 (1947): 281-289; and I. Fisher, "Our Unstable Dollar and the So-Called Business Cycle," op.cit., pp.179-202.

...decision not to use theories of man's economic behaviour, even hypothetically, limits the value to economics of the results obtained or obtainable by the methods developed.¹¹³

According to Koopmans this "rejection of the help economic theorising might give" creates a "void" in Mitchell's work, in that there is little guide as to which variables should be considered the most important and concentrated upon.¹¹⁴

However, not all commentators have been quite as harsh, and it is worth noting that much of the criticism leveled at Mitchell relates specifically to Mitchell and Burns' Measuring Business Cycles which was not meant to be taken on its own. Measuring Business Cycles did not even possess the analytic description contained in the 1913 volume Business Cycles, but Mitchell intended to rework the 1913 description in a later book that unfortunately remained unfinished at Mitchell's death.¹¹⁵ Writers such as Hansen, Milton Friedman, and J. Schumpeter have all claimed that despite Mitchell's methodological position some theoretical outline can be discerned in his work, although they too have their criticisms.

Hansen argues that to the extent that Mitchell possessed a theory it concerned the notion that changes in present and

113. T.C. Koopmans, op.cit., p.172.

114. Ibid., pp.168-172. For a criticism of Koopmans' views see R. Vining, "Methodological Issues in Quantitative Economics," The Review of Economics and Statistics 31 (1949): 77-94. Vining also defends Mitchell in "Economic Theory and Quantitative Research," American Economic Review 41 (1951): 106-118.

115. This book was eventually published in 1951 under the title, What Happens During Business Cycles: A Progress Report, edited by A. Burns and published by N.B.E.R. The book certainly does not represent Mitchell's full intentions. See, on this, A. Burns, "Introductory Sketch," op.cit., pp.36-43; A. Burns, "Wesley Mitchell and the National Bureau," in The Frontiers of Economic Knowledge (Princeton, 1954), pp.89-97; "Mitchell on What Happens

expected profits created cyclical fluctuations. On the other hand, Hansen points out that:

No convincing case can be made for the thesis that the turning point from prosperity to depression is caused by declining profits, as Mitchell seems to suggest. We are perhaps nearer the truth if we regard profits as the result of the cycle movement, not the cause of the cycle.¹¹⁶

This, of course, brings up a major methodological criticism: that quantitative analysis alone cannot show the direction of causation, and that the pinpointing of causal relationships, in the final analysis, must rest largely on theoretical discussion of a type Mitchell did not, at least to the extent required, provide.

Milton Friedman has also attempted to uncover a theory of cycles from Mitchell's 1913 analytic description. Friedman concentrates on the role that Mitchell gave to uncertainty about the future course of profits; the lagged response of induced expenditures behind receipts, of prices behind changes in output, of investment expenditures behind investment decisions; and the pro-cyclical behaviour of the banking system.¹¹⁷ All the same, Friedman admits that at times Mitchell's work is "exasperating" because: "Time and time again Mitchell seems on the verge of making explicit abstract statements about an essential element in the cyclical process, only to withdraw into a summary of empirical regularities or a listing of special cases or an elaboration of qualifications."¹¹⁸

During Business Cycles," ibid., pp.187-198.

116. A. Hansen, op.cit., p.404. See also E. Ames, op.cit., p.357.

117. M. Friedman, op.cit., pp.257-271.

118. Ibid., pp.257-258.

Harberler regards Mitchell's work as a synthesis of various cycle theories, but pays most attention to the idea that costs increase during the upswing and result in a decline in prospective profits. Harberler locates four main arguments in Mitchell's treatment; (1) that in the upswing less efficient labour and older plants are brought into use, (2) money wage rates rise, (3) interest rates rise, and (4) there is a growth of waste and a decline in efficiency.¹¹⁹ Harberler takes each of these arguments in turn and points out that the first is "simply a way of expressing the law of decreasing returns" and does not "explain why expansion is followed by a breakdown and depression." The second "does not explain anything, unless it is possible to show, why efficiency wages must rise, or are likely to rise more rapidly than prices--that is to say, if a time-lag can be established between the movements of wages and prices." The third argument "is not very helpful if regarded only as contributing to the increase in money costs of production," and the fourth involves difficulties in estimation as "the change in efficiency we have in mind must be represented by a shift of the productivity curve, while the statistically observed changes in output per head...may be due...to a movement along the curve."¹²⁰ All of these points relate back to the methodological weakness in Mitchell's work.

Schumpeter has argued that within Mitchell's work can be found "the fundamental contours" of a systematic treatise, but

119. G. Harberler, Prosperity and Depression (New York, 1946), pp.107-108.

120. Ibid., pp.108-110.

criticises Mitchell on the basis that:

In places he forgets or denies that there is such a thing as theoretic proof or disproof of a proposition, and seems to consider "theories" as so many suggestions of which one is really as good as another before being put to the decisive judgment of statistics.¹²¹

In Schumpeter's view Mitchell does not regard theory as an "analytical engine" in the sense that Marshall did, but as "a store of rational hypotheses" or "as an arsenal of generalisations gleaned from arrays of well digested facts." Schumpeter also finds the idea that the difference between making goods and making money as a "fundamental cleavage" incorrect, viewing it as only a "technical consequence" of the division of labour,¹²² and criticises Mitchell's rejection of the notion of equilibrium. On the other hand, Schumpeter finds Mitchell to be a forerunner of dynamic analysis and of aggregative economic analysis. This latter point is perhaps made clearest in Mitchell's Income in the United States (1921), which is an attempt to measure the size and distribution of the national income of the United States,¹²³ and in the research undertaken at the N.B.E.R. under his direction.

Mitchell's work can best be grasped as a unity. Mitchell clearly regarded his views on the business cycle, his emphasis on the institutions of a money economy, and his advocacy of national planning as intricately related to each other and to his

121. J. Schumpeter, "Mitchell's Business Cycles," Quarterly Journal of Economics 45 (1930/31): 152-153.

122. Ibid., pp.154-160.

123. W.C. Mitchell, et al., Income in the United States (New York, 1921).

wider aim of reworking economic theory. Schumpeter notes that:

Mitchell's creative efforts were not simply directed towards the cyclical phenomenon per se, but rather towards a new economic theory--to be inspired by the 'ideas developed in the study of business fluctuations.' This makes his work incommensurable with the work of most students of the business cycle.¹²⁴

Nevertheless, Mitchell's work remained incomplete and was often marred by a lack of "effective conceptualisation."¹²⁵ Mitchell's failings were due largely to his chosen methodology, but it was a part of his creed that the reconstruction of economic theory could only take place on the basis of factual research which he saw as concrete, realistic, and objective.

IV Mitchell and Institutionalism.

Mitchell's influence and prestige stemmed from his years at Columbia University and at the National Bureau of Economic Research. Mitchell's students at Columbia included such as F.C. Mills, A.F. Burns, D.W. Knauth, S. Kuznets, and H. Taylor. Mitchell's influence at Columbia is, however, not always easy to disentangle, as R.G. Tugwell, and G. Means were also in the Department of Economics while A. Berle was a member of the law school and J. Dewey was at the Department of Philosophy.

Kuznets, Mills, Burns, and Knauth and many others also worked with Mitchell at the N.B.E.R. and their work reflected the emphasis placed on quantitative studies by Mitchell and by Edwin Gay.¹²⁶ At the beginning of the N.B.E.R. Gay was president

124. J. Schumpeter, "The General Economist," op.cit., p.332.

125. Ibid., pp.329, 335.

126. H. Heaton, Edwin F. Gay: A Scholar in Action (Cambridge, Mass., 1952), pp.195-197.

while Mitchell was director of research, and from 1924-1933 Mitchell and Gay were co-directors of research.¹²⁷ A conversation between Mitchell and Gay was reported by Gay as follows:

Mitchell asked me if I thought economics could ever be made a true science, and I told him that I sincerely believed it possible, but it would take some fifteen or twenty generations more of hard and painstaking work and the accumulation of a long series of statistical studies for five hundred years or more before the base line is long enough to make statistical deductions from social measurements.¹²⁸

This highly empiricist attitude to economics shows up very clearly in the stream of statistical and empirical monographs undertaken at the N.B.E.R. It is probably accurate to say that for most of Mitchell's colleagues the influence of the N.B.E.R. was in terms of the lines of research that were encouraged and the use of quantitative methods, but for some, most notably F.C. Mills, somewhat more of Mitchell's attitudes rubbed off.

Like Mitchell, Mills thought that the use of statistical method would move economists away from a search for ultimate laws and towards a more probabilistic view of knowledge. Mills, under the influence of J. Dewey, also argued that economists should concentrate on gaining useful knowledge which could help in the solution of immediate problems.¹²⁹

Mills never took the view that economics could proceed on the basis of statistical induction alone, and he frequently argued that; "A statistical induction...can never carry complete

127. Ibid., p.199.

128. Ibid., p.196. For further information on Mitchell's influence at the National Bureau see G.H. Moore, "Wesley Mitchell in Retrospect," Journal of Economic Issues 12 (1978): 277-286.

129. F.C. Mills, "On Measurement in Economics," in R.G. Tugwell, ed., The Trend of Economics, pp.38-70.

confidence unless there is present some a priori element."¹³⁰
 Nevertheless, Mills placed a heavy emphasis on statistics and his The Behavior of Prices was heavily criticised for proceeding without proper theoretical underpinnings. Mills admitted that the objectives of The Behavior of Prices were

...the development of a method of analysis and the accumulation of a body of facts which may conduce to an understanding of the price system...No attempt has been made...to support a specific thesis.¹³¹

Mills claimed he was more interested in "describing more exactly the part which the system of prices plays in economic processes,"¹³² and while the study was, in part, aimed at studying price fluctuations and therefore linked to the more general concern of Mitchell and the N.B.E.R. with business cycles,¹³³ Mills did not even provide an analytic description of the Mitchell type. Indeed, in spite of the considerable discussion of Mills' book the exact conclusions, and importance of the work and how it is supposed to fit in with other work is entirely unclear.¹³⁴

Mills attempted to refute the charge that he proceeded on no theoretical basis by arguing that he was following a "new approach" or a "new method of price analysis." This "new approach," however, comes down to little more than the notion that the

130. Ibid., p.65.

131. F.C. Mills, The Behavior of Prices (New York, 1927), pp.437-438. The major critique of Mills' work is to be found in R.T. Bye, "An Appraisal of F.C. Mills' The Behavior of Prices," in Critiques of Research in the Social Sciences, II (New York, 1940), pp.3-91. See also A.W. Coats, "Methodological Controversy," pp.323-360.

132. F.C. Mills, The Behavior of Prices, p.438.

133. W.C. Mitchell and E. Gay, "Foreword" to F.C. Mills', The Behavior of Prices, pp.7-8.

134. See A.W. Coats, "Methodological Controversy," pp.344-348; and "Proceedings of the Conference on Bye's Critique," in R.T. Bye, op.cit., pp.193-320.

price system is highly complex and interrelated and should be studied as a whole,¹³⁵ a view that as Bye pointed out was hardly new given the work of general equilibrium theorists.¹³⁶ There is little in The Behavior of Prices that is identifiably institutionalist, and although Bye characterised Mills as such, he did so principally on the basis of Mills' emphasis on quantitative methods.¹³⁷

On the other hand, some of Mills' later works such as Recent Economic Changes and Prices in Recession and Recovery show a much firmer theoretical purpose. In these books one of Mills' principal aims is to investigate the extent of price inflexibility and the consequences of this for the economy's ability to adjust to disturbance or changes, particularly changes in productivity brought about by technical improvements. Mills goes so far as to argue that the severity and long duration of the great depression could be partly explained by such difficulties in adjustment. This clearly relates to Mitchell's earlier observation that lack of price flexibility may be making the problem of cycles more difficult.¹³⁸

Although pointing to lack of price flexibility and the existence of "frictions" as a cause of economic problems can hardly be said to be particularly institutionalist, Mills' analysis is interesting because of the role it gives to technical change. Thus:

135. F.C. Mills, The Behavior of Prices, pp.31-35.

136. R.T. Bye, op.cit., p.9.

137. Ibid., pp.10, 89-91. Mills objected to being called an institutionalist on the ground that the label carried no clear meaning. See ibid., p.112.

138. F.C. Mills, Prices in Recession and Recovery (New York, 1936), pp.3-6, 30-32.

Changes in technology and related variations are perhaps the chief dynamic element in modern economic systems. Such changes are continually occurring; recently they have been of exceptional magnitude.¹³⁹

Increases in productivity involve alterations in the way productive resources are used, in the demand for labour, in production costs and prices, and in the distribution of purchasing power. If the price system works well then the adjustment should occur smoothly, but, according to Mills, if the increase in productivity only occurs at a few points in the system and is not allowed to decrease the prices of the outputs affected, then what will occur is that only some people will become better off. The businesses concerned will earn higher profits and the workers will perhaps receive higher wages, but the productivity gain is not passed on to the consumer, and the total volume of sales may remain low and unemployment may remain high or become worse.¹⁴⁰

The obvious policy conclusion is to attempt to create more competition by attacking monopolies and government regulation of prices and Mills admits as much. However, for Mills, a perfectly competitive system is unobtainable and any attempt to move in that direction would be against the drift of society towards greater regulation for social purposes. Mills concludes that:

We must look forward to a continuation of the

139. Ibid., p.451.

140. Ibid., pp.456-466. In some ways Mills' analysis is reminiscent of Hamilton's analysis of the difficulties of dynamic adjustment, but Hamilton's approach is concerned with a specific industry, coal, while Mills clearly did not accept the "organic particularism" of Hamilton and insisted on studying the price system as a whole.

conditions under which changing productivity, on the one hand, and persistent frictions, on the other, play central roles in the processes of economic life...Until we have the knowledge and the power necessary to a broader type of economic planning and control than we have yet attempted, we must depend upon essentially competitive forces for the regulation of economic processes at large...restrictions upon the piling up of socially unnecessary frictions whether of private or public origin, may be desirable.¹⁴¹

Among the many other writers who worked at the N.B.E.R. at one time or another, Mitchell's influence appears to have been strictly limited. Despite the fact that under Mitchell, and later when A.F. Burns became Director of Research, the N.B.E.R. was to pursue lines of research which were all seen by Mitchell and Burns as fitting into a general programme of gaining a better understanding of economic processes, few of those involved ever came to espouse an institutionalist viewpoint. Indeed, the research undertaken tended to gradually merge into, and complement, the debates over Keynesian macro-economics. Examples that might be taken are S. Kuznet's work on national income, Moses Abramovitz' work on inventories and cycles, Anna Schwartz on currency holding, and the various research papers on fiscal policy.¹⁴²

One exception to this is to be found in the last project Mitchell initiated at the N.B.E.R. This was the study of money flows, a study that was completed by Morris Copeland¹⁴³ who had

141. Ibid., pp.463-464.

142. A. Burns, "Stepping Stones Towards the Future," in The Frontiers of Economic Knowledge (Princeton, 1934), pp.26-45; "The Cumulation of Economic Knowledge," ibid., pp.46-60; "Looking Forward," ibid., pp.135-151; and "Business Cycle Research and the Needs of Our Times," ibid., pp.170-184.

143. A. Burns, "Wesley Mitchell and the National Bureau," op.cit., pp.87-88.

already aligned himself with the institutionalist movement. Copeland completed his Ph.D. at Chicago in 1921 under J.M. Clark, but his institutionalism also bore the mark of Mitchell's influence, as can be seen from his advocacy of behaviourism, the use of statistical and "natural science" method, his criticisms of overly abstract "model analysis," and his use of the distinction between making goods and making money.¹⁴⁴

Copeland thought a great deal of Mitchell's work and argued that: "Historically we may fairly call Mitchell's theory of the business cycle the first triumph of natural science method."¹⁴⁵

Copeland's choice of subjects for study displays the joint influence of J.M. Clark and W.C. Mitchell, his interests including divergencies between social and private costs, imperfect competition, differential pricing, the quantity theory of money, national income accounting, and later the achievement of full employment and economic stability.¹⁴⁶ Copeland appears to combine these two influences when he argues that the two principle problems facing a free enterprise economy are, first, divergencies between private and social advantage and, secondly, the business

144. M.A. Copeland, "Psychology and the Natural Science Point of View;" "Economic Theory and the Natural Science Point of View;" "Institutional Theory and Model Analysis;" "Statistics and Objective Economics;" reprinted in Fact and Theory in Economics: The Testament of an Institutionalists (Ithaca, 1958).

145. M.A. Copeland, "Economic Theory and the Natural Science Point of View," op.cit., p.50. Copeland was to alter his methodological position in his later work.

146. M.A. Copeland, "The Equation of Exchange: An Empirical Analysis;" "Concepts of National Income;" "The Income and Product Circuit and the Money Circuit in India and the United States;" "Communities of Economic Interest;" "Monopolistic Competition;" "A Social Appraisal of Differential Pricing;" all reprinted in Fact and Theory in Economics.

cycle.¹⁴⁷ For Copeland, the first problem is a matter of institutional form, such as the existing laws of property, while the second, that of cycles, appears, for Copeland, to be due to the decentralised nature of the economic system;¹⁴⁸ in Mitchell's terms its "planlessness." Copeland's economics was, however, somewhat affected by the arrival of Keynesian theory.¹⁴⁹

Mitchell's influence on other major institutionalists does not appear to have been all that great. Although Tugwell approved of Mitchell's "experimentalism," Tugwell never adopted the statistical approach. The elements in Mitchell's work that Tugwell chose to emphasise were his interest in "policy, in fact, and in the future," and his faith in social management. For Tugwell, Mitchell's work was "a bridge from classicism to instrumentalism."¹⁵⁰

Despite the fact that Mitchell's quantitative institutional approach deeply influenced relatively few of his colleagues, students, and fellow institutionalists, Mitchell's prestige was such that institutionalism became closely identified with quantitative methods, which served to strengthen the view of institutionalists as non-theoretical.¹⁵¹ It has to be allowed

147. M.A. Copeland, Our Free Enterprise Economy (New York, 1965), pp.10-14.

148. Ibid., pp.10-14 and 273-277.

149. See M.A. Copeland, The Keynesian Reformation (Delhi, 1952); M.A. Copeland, Toward Full Employment in Our Free Enterprise Economy (New York, 1966); and M.A. Copeland, Our Free Enterprise Economy, particularly pp.277-280.

150. R.G. Tugwell, "Wesley Mitchell: An Evaluation," The New Republic 92 (1937): 238-240.

151. See for instance L. Robbins, The Nature and Significance of Economic Science, pp.101-104; see also D. Hamilton, "Why is Institutional Economics not Institutional?" pp.312-313; and the well known round table discussion, "Institutionalism--What It is

that Mitchell's beliefs that the use of quantitative methods would lead to a recasting of economic theory, and that the accumulation of factual information would lead to the growth of a new theoretical framework almost by "accretion"¹⁵² were sadly misplaced.

On the other hand, Mitchell's own work and that he directed at the N.B.E.R. represents an undertaking that can only be viewed with considerable respect, but it failed to lead economics in the direction Mitchell desired to see. Of all the various approaches to institutionalism, the quantitative approach of Mitchell was probably the shortest lived.¹⁵³ Quantitative research was increasingly to become an adjunct to more orthodox theorising, and while there can be little doubt that Mitchell had much to do with the gradual increase in the amount of quantitative and statistical work undertaken by more orthodox economists, this was hardly Mitchell's primary intent. Mitchell saw the quantitative method as an approach to realism, to objectivity, to new insights, and eventually to a new theory.

and What It Hopes to Become," op.cit., pp.134-141.

152. W.C. Mitchell, "Quantitative Analysis in Economic Theory," op.cit., p.28.

153. In the 1920's and 1930's nearly all the attempts to characterise institutional economics included the idea of quantitative method, but since the 1940's the secondary literature has never mentioned quantitative methods as being in any sense institutional.

CHAPTER 7

J.R. COMMONS: INSTITUTIONALISM

AND

COLLECTIVE ACTION

J.R. Commons had a particularly long and lively career.¹ His first published work, an editorial in the Oberlin Review, appeared in 1887, and he continued to write until his death in 1941. His last work, The Economics of Collective Action, was published posthumously in 1950.²

Commons' youthful academic interests took him to Johns Hopkins University as a graduate student in order to study under R.T. Ely.³ Commons was heavily influenced by writers such as Ely and Adams, and Ely was to have a particular importance in Commons' career. It was Ely who arranged Commons' return to academic life at the University of Wisconsin in 1904, some five years after Commons had been dismissed from his previous academic post at the University of Syracuse.⁴

1. For biographical details see L.G. Harter, John R. Commons: His Assault on Laissez-Faire (Corvallis, 1962), pp.9-159; and J.R. Commons, Myself (Madison, 1964).

2. For a full bibliography see J.R. Commons, The Economics of Collective Action (New York, 1951), pp.377-408.

3. L.G. Harter, op.cit., p.17; J.R. Commons, Myself, p.40.

4. L.G. Harter, op.cit., p.24; J.R. Commons, Myself, p.92.

Commons' shared Ely's and Adams' concern with labour problems, and with the interrelationships between law and economics. Commons was also greatly affected by Ely's "look and see" methodology. Commons' work was largely an extension of these ideas, although other influences were also important in shaping his thought.

In some of his early work Commons showed signs of following a neo-classical line.⁵ Commons' first major theoretical work, The Distribution of Wealth, was a combination of marginalist ideas with some of the concern for broader legal and ethical questions inherited from Adams and Ely.⁶ Commons, indeed, never entirely lost his neo-classicism, as can be seen in his continued appreciation of writers such as Cassel and Wicksell.⁷

Commons also came under the influence of Veblen, an influence of which Ely greatly disapproved.⁸ Veblen's concern with credit, intangible property, and the distinction between the pecuniary and the industrial all find a role in Commons' work.⁹

One final influence that cannot be ignored was Commons' own wide ranging experience in the world of affairs. Commons was not

5. See for example a comment made by Schumpeter in 1912 that places Commons as a marginal utility theorist. J.A. Schumpeter, Economic Doctrine and Method (London, 1954), p.186, n.4.

6. J.R. Commons, The Distribution of Wealth (New York, 1943). The book was very poorly received. See D. Seckler, op.cit., p.123; and J. Dorfman, "The Foundations of Commons' Economics," in J.R. Commons, The Distribution of Wealth, pp.xi-xiv.

7. J.R. Commons, Institutional Economics (Madison, 1961), pp.500-506, 590-611.

8. R.T. Ely, in "Round Table on Institutional Economics," American Economic Review 22, supp. (1932): 114-116.

9. J.R. Commons, Institutional Economics, pp.649-677.

only concerned with research on issues such as money, banking, taxation, immigration, public utilities, and labour, but was also heavily involved with a number of commissions. For instance, he worked with McKinley's Industrial Commission, the Wisconsin Industrial Commission, and the United States Industrial Commission, he helped to represent four western states before the Federal Trade Commission on the Pittsburg plus case, and gave evidence before Congressional committees on matters of monetary policy. Commons was also involved in the arbitration of industrial disputes, and was almost constantly employed as a consultant to La Follette during the years of the "Wisconsin Experiment."¹⁰ This vast store of personal experience had much to do with the point of view and the conceptual framework Commons developed, and he readily admitted that his ideas were deeply affected by his "own experience in collective action."¹¹

I Commons on Method and Scope.

Commons did not fully develop his methodology until fairly late in his career when he came to put his ideas together for his book Institutional Economics, published in 1934. All the same it is clear that his work is all of one piece, the only major difference between his earlier and later work being that the Social Christianity that was evident in the earlier works was replaced with a pragmatic philosophy.¹²

Commons' ideas on method and scope were influenced by Ely's

10. D. Seckler, op.cit., p.122; S. Perlman, "John Rogers Commons" in J.R. Commons, The Economics of Collective Action, pp.2-7; L.G. Harter, op.cit., pp.89-159; and J.R. Commons, Myself, passim.

11. J.R. Commons, Myself, p.143; and J.R. Commons, "Comment," American Economic Review 22 (1932): 264-265.

12. J.R. Commons, Myself, pp.51-52.

"look and see" method, the views of the historical school, and the ideas of Weber concerning "ideal type" methodology.¹³

Commons, however, did not simply follow Ely or the historicists, and he devoted considerable attention to the methodological problems that he faced.

Commons' method stemmed from his conception of the nature of economics. For Commons, economics should aim at understanding the whole economic process. He was concerned with the problem of economic change and evolution,¹⁴ was anxious to develop a methodology that could properly handle the part/whole relationships in this process, and, as a pragmatist, he was concerned with its control.¹⁵

In developing his methodology Commons emphasised the difference between the subject matter of social science and that of the physical sciences. The subject matter of social science is one that involves volition, purpose, choice, and the exercise of will. History is therefore to be conceived of as a process of "artificial" rather than "natural" selection.¹⁶

The method of investigation must therefore be different from that of the exact sciences because its outcome is the concerted but conflicting action of human wills in an historical evolution of determining what is workable within the changing economic,

13. J.R. Commons, Myself, p.43; J.R. Commons, "Review of R.T. Ely's Ground Under Our Feet," American Economic Review 29 (1939): 122-124; J.R. Commons, "Review of W. Sombart's, Der Moderne Kapitalismus," American Economic Review 19 (1929): 78-88; J.R. Commons, Institutional Economics, pp.56-57, 97, 719-748.

14. J.R. Commons, Institutional Economics, pp.99-102.

15. Ibid.; and J.R. Commons, The Economics of Collective Action, pp.130-144.

16. J.R. Commons, "Law and Economics," Yale Law Journal 34 (1924/25): 373-376; and J.R. Commons, Institutional Economics, pp.719-723.

political, and ethical sequence.¹⁷

This view is markedly different from Veblen's or Mitchell's, although it also involves a rejection of deduction on the basis of "isolated" assumptions.¹⁸ Orthodox economists develop in their theories "not what actually works out, but what would work out if it were possible to isolate...individualistic man from everything else." Orthodox theory was an "abstraction," not "an understanding of reality in all its complexity," and it was such "understanding," or "insight," or "Emotional sense of the fitness of things," that Commons desired.¹⁹

While Commons sometimes recognised that abstraction was necessary, he also argued that economics "must take all facts into account," and "include all of the motives as shown in all of the behaviour."²⁰ Here Commons shows his similarity with the historical school, but he also criticised members of the historical and "ethical" schools for failing to incorporate the "principles" of economics.

These schools, even in their culminating form of the "ideal types" as proposed by Rickert and Max Weber, never were able to incorporate into what remained merely descriptions or ideals of historical progress the economic principles derived from Ricardo and Menger. This however can be done if we discover a unit of activity, and if we define "principles" as mere similarities of cause, effect, or purpose common to these activities.²¹

This definition of principles as similarities of cause, effect,

17. J.R. Commons, Institutional Economics, p.719.

18. J.R. Commons, The Economics of Collective Action, pp.124-125; J.R. Commons, Myself, p.28.

19. J.R. Commons, Institutional Economics, pp.100-102, 722.

20. Ibid., p.731.

21. J.R. Commons, "The Problem of Correlating Law, Economics, and Ethics," Wisconsin Law Review 8 (1932/33): 4.

or purpose, is interesting as it reveals Commons' conception of the nature of economic theory. Principles are to be developed from the "comparative method," that is, the search for similarities and differences.²² These principles are empirically based and, in fact, provide little more than a framework for investigation, or, in Commons' terminology a "formula."²³ This formula is "an instrument of investigation, which shall contain all of the variable factors which all investigations might include, but which can be weighted with highly variable importance of the several parts, according to time and place in the functioning of the whole."²⁴ The formula is a "mental tool constructed for research and action, and it is a formulation of the relation of the parts to each other and to the whole." Each part is also itself a whole "requiring each its own formula, and so on down to the parts which we consider ultimate for our particular science."²⁵

Commons saw these "formula" as "hypotheses," defined as "a statement of what we now expect from our present knowledge of the facts and our present understanding of their interrelationships." Hypotheses are "tried out" by investigation and experiment and may be changed to better "fit the facts." As Commons was dealing with an ever changing process the hypotheses must also change over time to take in new facts and retire old ones. In this manner Commons reaches the conclusion that theory should

22. J.R. Commons, The Economics of Collective Action, p.14.

23. J.R. Commons, Institutional Economics, pp.733-736.

24. Ibid., p.733.

25. Ibid., p.736.

be viewed as a "mental process" for the investigation, "interpretation, correlation and expectation" of facts.²⁶ Science, therefore, "is not a body of knowledge--it is just a method of investigation, and its theory is its method."²⁷

Commons' idea of a "formula" was developed from Weber's notion of "ideal types," although with substantial modification. Commons' formula is more inclusive than Weber's ideal type as it is not based on the idea of the "spirit" of an age, but on "all kinds of motives, emotions and circumstances," and it includes an ethical element which Weber specifically excluded. This ethical element is not, in Commons' view, subjective as it is "derived from investigation" and based on a "workable consensus."²⁸

Commons frequently utilised the term "experimentalism," meaning the testing of hypotheses or formula against facts or the "trying out" of ideas in order to observe the consequences. Commons, however, also thought of his own historical investigations and his experience as a law maker as a "testing"²⁹ that displayed the inadequacy of orthodox economics and the need to base economics on a different set of principles and new units of activity. In Commons' view, orthodox economics was based on the principle of efficiency and utilised the individual and the commodity as its units of investigation. Commons argued that other principles were just as important and that the units of

26. Ibid., pp.734. See also J.R. Commons, The Economics of Collective Action, p.73, 113-114; J.R. Commons, "Twentieth Century Economics," Journal of Social Philosophy 5 (1939):31.

27. J.R. Commons, Institutional Economics, p.722.

28. Ibid., pp.722-748.

29. J.R. Commons, The Legal Foundations of Capitalism (Madison, 1968), p.vii.

investigation should be the "transaction" and the "going concern."³⁰

These principles and units of activity were designed to bring into economics the idea of willingness, the role of collective action in controlling individual action, and the close relationship between economics, law, and ethics. Whereas orthodox theories, with their individualistic bias, "fitted the emergence of individual liberty from ancient oppressions," they could not handle "the emergence of collective liberty on the part of those who were liberated yet exposed to the collective liberty of others."³¹

Commons' experience told him that it was not just individual action but also the actions of individuals organized into trade unions, corporations, and political parties, that determined the operation of the economic system. Indeed, Commons defined institutions as "collective action in control of individual action," or more fully "collective action in control, liberation, and expansion of individual action."³² Liberation is involved because collective action could liberate "individual action from coercion, duress, discrimination, or unfair competition." Expansion is involved because collective action could expand the "will of the individual," for instance the head of a corporation,

30. J.R. Commons, "Twentieth Century Economics," op.cit., pp.31-32; J.R. Commons, "The Problem of Correlating Law, Economics and Ethics," op.cit., pp.3-5.

31. J.R. Commons, "Twentieth Century Economics," op.cit., p.32; J.R. Commons, "Institutional Economics," American Economic Review 26, supp. (1936): 237-246; and J.R. Commons, Institutional Economics, pp.1-9.

32. J.R. Commons, "Institutional Economics," American Economic Review 21 (1931): 649-651.

far beyond what he could achieve "by his own puny acts."³³

This definition of institutions is different from the more common institutionalist definition of institutions as habits of thought. While Commons was in no doubt that his definition included "unorganised" forms of collective action such as customs, habits, and common practices, as well as organised forms such as churches, corporations, or trade unions, he tended to concentrate on the latter.³⁴

In Commons' terminology an organised form of collective action such as a church or a corporation is a "going concern," while the framework of laws, codes, rules, regulations, and customs, within which the concerns operate provide a set of "working rules."³⁵ These working rules are changeable, and are for social philosophy what natural laws are for "cosmic philosophy."³⁶ Human purpose both directs the going concerns and results in gradual changes in the working rules. For Commons this meant that the methodology of equilibrium analysis was of little use, the frame of reference must be in terms of an evolving whole summed up in the principle of willingness.³⁷

II Commons' Legal/Economic Framework: (i) the Principle of Willingness and its Parts.

The Precise nature of collective control over individual

33. Ibid., p.651.

34. J.R. Commons, "Economics and Social Philosophy," Journal of Social Philosophy 1 (1935): 7-9.

35. Ibid., pp.8-10; J.R. Commons, The Legal Foundations of Capitalism, pp.134-153.

36. J.R. Commons, "Economics and Social Philosophy," op.cit., pp.9-10.

37. J.R. Commons, "Law and Economics," op.cit., pp.373-377; J.R. Commons, "Twentieth Century Economics," op.cit., p.32; J.R. Commons, Institutional Economics, p.738.

action, the whole/part relationship, and the linkages between economics, law, and ethics can best be understood in terms of the five "part principles" around which Commons organized his ideas. These part principles are efficiency, scarcity, custom or the working rules of collective action, sovereignty, and futurity.³⁸

Efficiency is that part of economics which deals with "man's control over the forces nature" or with productivity. It was this aspect of economics that Commons saw orthodox economics as principally concerned with. Custom was either eliminated or taken for granted so that economics could be based on "happiness" and "reason" instead of "custom" and "authority."³⁹ Orthodox economics dealt with the relationship between man and nature but failed to deal adequately with the relationship between man and man. Classical economics was "engineering economics" concerned with "production" and "might," while neo-classical economics was "home" or "consumption" economics which dealt with "wants and satisfactions."⁴⁰ To deal adequately with the relationships between men involved the consideration of the other part principles.

Sovereignty is the exercise of physical sanctions by the

38. J.R. Commons, "Law and Economics," op.cit., p.371; J.R. Commons, Institutional Economics, p.728.

39. J.R. Commons, "Law and Economics," op.cit., pp.371-372; J.R. Commons, "Economics and Social Philosophy," op.cit., p.21; J.R. Commons, The Economics of Collective Action, pp.97-103.

40. J.R. Commons, "Economics and Social Philosophy," op.cit., p.21; and J.R. Commons, "Material, Psychological and Institutional Economics," in Economic Essays in Honor of Gustav Cassel (New York, 1967), pp.89-103.

state in the enforcement of common and statute law. The power of the state may be used to control economic activities, And Commons saw statute law as "a kind of organising and experimenting with the efficiencies, scarcities, customs, and expectations of the people."⁴¹ Clearly, the state, through its lawmaking function has a role in shaping the direction of economic change.

The principle of futurity changes the concept of human nature from that of a "passive resultant" to that of "an active originator, or rather chooser, of forces."⁴² It also emphasises the role of expectations in determining current actions.

When we look at the human will...as the force with which economics has to do...then we find it is the hopes and fears, the expectations and cautions, the foresight and impatience, respecting the future that determine what shall be done in the present.⁴³

The principle of scarcity is the basis of "property in jurisprudence" and of conflict of interest. Commons' economics was not one of automatic harmony of interest, but of the mediation of conflict.⁴⁴ Orthodox economics, with its units of investigation of individuals and commodities, could not deal with conflict, whereas institutional economics deals with individuals as "members, citizens of a concern with rights and liberties conferred or withheld by associated action."⁴⁵

The working rule is not a foreordained harmony of

41. J.R. Commons, "Law and Economics," op.cit., p.382; J.R. Commons, The Economics of Collective Action, pp.74-88.

42. J.R. Commons, "Law and Economics," op.cit., p.377.

43. Ibid., p.377.

44. Ibid., p.372.

45. J.R. Commons, "The Problem of Correlating Law, Economics, and Ethics," op.cit., p.4; J.R. Commons, "Economics and Social Philosophy," op.cit., pp.9, 21.

interest, as assumed in the hypothesis of natural rights or mechanical equilibrium of the classical and hedonistic schools, but it actually creates out of conflict of interests, a workable mutuality and orderly expectation of property and liberty.⁴⁶

This leads directly to the role of working rules and particularly the common law in resolving conflicts of interest. Working rules include customs, common practices, and the common law. These working rules adjust and change with changing economic conditions creating a moving equilibrium of "workable mutuality and orderly expectation." Working rules are enforced by moral sanction, by the "scarcity of alternatives,"⁴⁷ that is by some cost involved in failing to follow the usual practice, or, if there is a dispute, by the courts.⁴⁸

When disputes are brought to court the decision is made as to which practices are desirable and which are undesirable. The decision is made on the basis of what is considered to be "reasonable," and in deciding what is reasonable the court:

...must consider the inducements to efficiency, the circumstances of scarcity...the expectations of the future, the good and bad practices of the two parties, as well as the good and bad common practices of similar persons under similar circumstances, and the legislative acts of sovereignty.⁴⁹

The court's definition of reasonableness is, therefore, the "summing up of the whole science of economics,"⁵⁰

The links between law, economics, and ethics are now quite clear. Economics, for Commons, was a science that was concerned

46. J.R. Commons, "Institutional Economics," American Economic Review 21 (1931): 656.

47. J.R. Commons, "Economics and Social Philosophy," op.cit., pp.7-9.

48. J.R. Commons, "Law and Economics," op.cit., p.372.

49. Ibid., pp.380-381.

50. Ibid., p.381.

with the habits and common practices of individuals and collective organisations "in their mutual adjustment to scarcity of resources and in their competitions and conflicts imposed by that scarcity." Economics is based on "the fundamental concepts" on which law is also founded, while Commons' notion of reasonableness obviously contains an ethical element.⁵¹

These part principles are related to the whole as follows:

...these five part-principles constitute, in their interdependence the whole of the principle of willingness. This...as a principle is the expected repetition, with variability, of the total of all human acting and transacting within the limiting and complementary interdependence of the principles of scarcity, efficiency, working rules, sovereignty, and futurity. The functional relations are such because a change in one direction changes all the others, and this changes the whole transaction or concern. If efficiency increases, then scarcity diminishes, a variation of working rules occurs, as well as of expectations of the future, and perhaps of the use of sovereignty...Change in any one of its functional parts is a change in the whole of willingness.⁵²

For Commons, then, the evolutionary process was not simply a result of changes in technical or economic conditions, but depended critically on the response from government, the law courts, and collective organisations. Thus, the "phenomena of political economy" are:

...the present outcome of rights of property and powers of government which have been fashioned and refashioned in the past by courts, legislators, and executives through control of human behavior by means of working rules, directed toward purposes deemed useful or just by the lawgivers and law

51. J.R. Commons, The Economics of Collective Action, pp.59-96; J.R. Commons, Institutional Economics, p.71; J.R. Commons, "Law and Economics," op.cit., p.372.

52. J.R. Commons, Institutional Economics, p.738.

interpreters.⁵³

This view of economic evolution raises a difficulty mentioned by M.A. Copeland which is that the standard of reasonableness depends in part on current practices,⁵⁴ so that in the process of artificial selection ethical tastes select practices and practices select ethical tastes.⁵⁵ This problem is compounded because Commons was not satisfied simply to analyse the process, but wished to judge it and partake in it.

Commons argued that economists could not be ethically neutral, and that economics should be directed towards "social engineering" by developing an "administrative economics."⁵⁶

Administration is pragmatic social philosophy. It brings together, this time by methods of scientific investigation, the separated fields of economics, ethics and jurisprudence.⁵⁷

Commons felt that the pragmatic method of "historical and experimental investigation" would result in the provision of "the facts and statistics needed for an administrative economics,"⁵⁸ but a standard of judgment is still required. Commons, again, looked to the courts' standard of reasonableness but in practice he expanded the idea of reasonableness beyond the areas in which

53. J.R. Commons, The Legal Foundations of Capitalism, p.378; see also H.H. Liebhafsky, "Commons and Clark on Law and Economics," Journal of Economic Issues 10 (1976): 751-759.

54. J.R. Commons, "Twentieth Century Economics," op.cit., p.33, 40-41; J.R. Commons, "The Place of Economics in Social Philosophy," op.cit., p.7; J.R. Commons, Institutional Economics pp.741-743.

55. M.A. Copeland, "Commons' Institutionalism in Relation to Problems of Social Evolution and Economic Planning," Quarterly Journal of Economics 50 (1935/36): 343.

56. J.R. Commons, "Twentieth Century Economics," op.cit., pp.32-33.

57. Ibid., p.33; see also J.R. Commons, The Economics of Collective Action, p.125; and J.R. Commons, "Constructive Research," in Labor and Administration (New York, 1964), pp.7-13.

58. J.R. Commons, "Twentieth Century Economics," op.cit., p.34.

the courts had applied it, and frequently resorted to a set of ultimate values such as "liberty and equality."⁵⁹ The result of this is a persistent intermingling of positive and normative elements in Commons' work. It is frequently unclear whether Commons is arguing in positive terms or if he is arguing that something should happen.

The task Commons set himself was clearly a momentous one. He was determined to deal with the full complexity of the evolving economic system. A system intimately linked with technical, legal, political, ethical, customary, and psychological considerations. It must be concluded that Commons' method gave him only the most blunt of weapons with which to work. Commons' conception of "principles" provides little more than a framework for investigation, a set of concepts which are frequently of such generality as to be of only dubious analytical or predictive value.⁶⁰ On the other hand, Commons' approach took him into areas of considerable interest and fascination. The result, as Boulding has put it, is a "tangled jungle of profound insights,"⁶¹ both the tangle and the insights being the result of Commons' views on the method and scope of economics.

59. See for instance J.R. Commons, Institutional Economics, pp.741-743, 902-904; and J.R. Commons, The Legal Foundations of Capitalism, pp.376-377.

60. The fact that Commons often provides little more than a conceptual framework is mentioned by C.L. James, "Commons on Institutional Economics," American Economic Review 27 (1937): 61-75; N.W. Chamberlain, "The Institutional Economics of John R. Commons," in J. Dorfman, et al., Institutional Economics (Berkeley, 1963), pp.87-88; F.H. Knight, "Review of Institutional Economics by J.R. Commons," Columbia Law Review 35 (1935): 803-805.

61. K. Boulding, "Institutional Economics: A New Look at Institutionalism," op.cit., p.8.

III Commons' Legal/Economic Framework: (ii) The Units of Investigation.

Commons' framework for investigation was built up on his overall principle of willingness, the five part-principles of efficiency, scarcity, working rules, sovereignty, and futurity, and his units of investigation, the transaction and the going concern.

Commons defined a transaction as a transfer of ownership. This definition was designed to take account of the changes in the legal foundations of capitalism that Commons maintained had occurred with the recognition of incorporeal property (debts) and intangible property (goodwill) and the recognition of the right of collective bargaining by the courts.⁶² Orthodox economics was based on the idea of the free exchange of commodities between individuals of equal legal standing, whereas, for Commons, the system was one of the transfer of rights of ownership of tangible, incorporeal, and intangible property between individuals and organisations standing in various legal relationships to each other.⁶³

Transactions intervene between the production of labor, of the classical economists, and the pleasures of consumption, of the hedonistic economists, simply because it is society, that, by its rules of order, controls ownership of and access to the forces of nature. Transactions, as thus defined, are not the "exchange of commodities" in the physical sense of "delivery," they are the alienation and acquisition, between individuals, of the rights of future owner-

62. J.R. Commons, Institutional Economics, pp.52-58.

63. Ibid., pp.56-58. See also J.R. Commons, The Economics of Collective Action, pp.43-57. For an attempt to summarise Commons' thinking see K. Parsons, "John R. Commons' Point of View," Journal of Land and Public Utility Economics 18 (1942): 245-266.

ship of physical things, as determined by the collective working rules of society. The transfer of these rights must therefore be negotiated between the parties concerned, according to the working rules of society, before labor can produce, or consumers can consume, or commodities be physically delivered to other persons.⁶⁴

This notion of a transaction as a transfer of legal control relates closely to Commons' theory of value.⁶⁵ According to Commons, classical economics provides a concept of "use value" which "does not increase or diminish with demand and supply, but increases with the amount of labor and ingenuity required to produce it, and diminishes with the amount of depreciation or wear and tear," or "using up."⁶⁶ According to Commons use values form the basis of Taylor's system of scientific management with its emphasis on physical quantities, qualities, and man hours per unit.⁶⁷

On the other hand, hedonistic economics gives a psychological theory of value in which value diminishes with an increase in quantity. Commons equates this with "scarcity value," in contrast with use value.⁶⁸ Commons' transactional theory of value, however, does not dispense with the notion of use value. Indeed, he retains both the idea of use value and scarcity value and adds a third dimension of value in the form of expected future values, which depend on the degree of risk and the period of time involved.⁶⁹ Thus, the transactional theory of value has three

64. J.R. Commons, Institutional Economics, p.58.

65. Ibid., pp.66, 84-87; 172-173, 180-189, 203-214, 242-243; 419-425; 511-520.

66. Ibid., p.84. This view of classical value theory is quite inaccurate. See D.P. O'Brien, The Classical Economists, pp.78-107.

67. J.R. Commons, Institutional Economics, p.84.

68. Ibid., pp.85-86.

69. Ibid., pp.86-87.

dimensions, which are all "combined in the proprietary expectations of a present transaction at a point of time, which are, following MacLeod, more an 'economic quantity,' instead of a physical quantity, because futurity is one of its three dimensions."⁷⁰ Commons explains this and the relationship between his views and that of orthodox economics as follows:

The physical quantities of the classical and hedonistic schools do not disappear--they are merely transferred to the future through the institution of ownership... Transactions are based on expectations of the immediate or remote future, secured by collective action consisting of the institutions of property... Transactions are the means, under operation of law and custom, of acquiring and alienating legal control of economic quantities, including legal control of the labor and management which will afterwards produce and deliver commodities towards the ultimate consumer.⁷¹

Orthodox economics is therefore supplemented by, rather than entirely replaced by, institutional economics.

Commons saw legal control as the future physical control of economic quantities and of the future behaviour of individuals.⁷² This control of human behaviour, however, brings up the idea of choice and the limitations on choice.⁷³ Each choice, in Commons' view, represents the "will in action" and consists of a performance, an avoidance, and a forbearance. Performance, which includes payment, is the "rendering of a service, compelling a service, or paying a debt." Avoidance is "non interference with the choices of others" and forbearance is the "reasonable" exercise of performance. Forbearance "is the limit placed on performance;

70. Ibid., p.86. See also J.R. Commons, The Legal Foundations of Capitalism, pp.11-21.

71. J.R. Commons, Institutional Economics, pp.86-87.

72. Ibid., p.87.

73. Ibid., pp.87-89; 304-307.

performance is the actual performance; and avoidance is the alternative performance rejected or avoided." Each of these aspects of choice may "be a duty or a liberty, with a corresponding right or exposure of others; and each may be compelled, permitted, or limited by collective action according to the then working rules..."⁷⁴

Commons goes on to identify three major types of transaction, the rationing transaction, the managerial transaction, and the bargaining transaction.⁷⁵ Rationing transactions are undertaken by the "policy makers" of an organisation; for instance, decisions by a board of directors in making up the budget for the ensuing year, or the decisions of a legislature in "apportioning taxes," or collective bargaining between an association of employers and an association of employees. Cartels undertake a series of rationing transactions as they control output, and a judicial decision is a rationing transaction if it takes wealth from one individual and gives it to another.⁷⁶

Rationing transactions are the "rationing of wealth or purchasing power, not by parties deemed equal, but by an authority superior to them in law," the superior being a "collective superior" or an "official spokesperson."⁷⁷

Managerial transactions are again between a legal superior

74. Ibid., p.88. See also J.R. Commons, The Legal Foundations of Capitalism, pp.69-79.

75. J.R. Commons, Institutional Economics, pp.59-69; J.R. Commons, The Economics of Collective Action, pp.43-57; J.R. Commons, "The Problem of Correlating Law, Economics and Ethics," op.cit., pp.9-12.

76. J.R. Commons, "The Problem of Correlating Law, Economics, and Ethics," op.cit., pp.5-12.

77. Ibid., p.12.

and a legal inferior, only in this case the superior is an individual or a "hierarchy of superiors" who give orders which the inferior must obey. Managerial transactions are the relationships between foreman and workers, sheriff and citizen, and manager and managed. The purpose of managerial transactions in economics is the production of wealth, it is "the physical process of overcoming the resistance of nature under the supervision of management."⁷⁸

The bargaining transaction is a transaction between legal equals and "is found to consist of four parties" as "each buyer is choosing between the best two sellers" and "each seller between the two buyers." The bargaining of these parties is constrained by the decisions of the courts which require equal access, no discrimination, "fair" competition, "reasonable" prices, and due process. The bargaining transaction transfers the ownership of wealth.⁷⁹

It should be noted that bargaining transactions occur both in competitive and imperfect markets. While the legal definition of reasonableness places limits on the exercise of monopoly power, Commons was clear that property rights included the right to withhold.⁸⁰

The process of transacting also involves a "negotiation psychology."

...the psychology of transactions is the psychology

78. Ibid., pp.9-11.

79. Ibid., pp.5-9.

80. Ibid., pp.8-9; J.R. Commons, The Legal Foundations of Capitalism, pp.47-64; J.R. Commons, "Institutional Economics," American Economic Review 26 (1936): 243.

of negotiations. Each participant is endeavoring to influence the other...Each modifies the behavior of the other in greater or less degree. This is the psychology of business, of custom, of legislatures, of courts, of trade associations, of trade unions.⁸¹

What is more this negotiational psychology is always changing as the distinctions between persuasion and duress, and between fair and unfair competition, are modified.⁸² The terms on which transactions are carried out, then, depends on bargaining power, and the set of working rules. Working rules may be modified by legislative acts and the attitude of the courts, which in turn may be affected by the political influence an organisation possesses and by whether or not the courts can be convinced that certain actions are reasonable.⁸³

Commons also provided another classificatory scheme for transactions, this time dividing them into "routine" and "strategic" transactions. Commons related this division to the idea of "limiting" and "complementary" factors.⁸⁴ A strategic transaction is one that gives control over a limiting factor. Once the limiting factor is controlled the complementary factors can be dealt with through routine transactions. The limiting factor may change over time, but as long as the limiting factor is controlled, the complementary factors will "work out the results intended."⁸⁵ Commons explains that this "formula" of strategic and routine transactions:

81. J.R. Commons, "Institutional Economics," American Economic Review 21 (1931): 655.

82. Ibid., pp.655-656.

83. J.R. Commons, Institutional Economics, pp.754-763.

84. Ibid., pp.89-90, 342-348, 627-631.

85. Ibid., pp.89-90; J.R. Commons, "Economics and Social Philosophy," op.cit., pp.15-17.

...has become a highly important instrument of investigation, by means of which the older analogies of equilibrium give way to the actual process of human ability in controlling, through transactions, the physical and social environment.⁸⁶

These ideas are brought together in "a larger unit of investigation," the going concern. The going concern is a "joint expectation of beneficial bargaining, managerial, and rationing transactions" kept together by "working rules" and by the control of strategic or limiting factors which are expected to control the others.⁸⁷

The concept of limiting and complementary factors has two "applications," "the control of physical forces through managerial transactions leading to greater or less efficiency measured by the ratio of output to input" and "the control of other persons through bargaining transactions measured by the ration of outgo to income." These Commons relates to the efficiency and scarcity meanings of limiting and complementary factors and designates them as the "going plant" and the "going business."⁸⁸

The best going plant is one where the technological factors are rightly proportioned by managerial transactions; the best going business is one where the purchases and sales are rightly proportioned by bargaining transactions; the best going concern is one where technology and business are rightly proportioned. The best nation is that where rights, duties, liberties, and exposures are best rationed among individuals and classes. The technological economy is efficiency; the business economy is scarcity; the going concern is technology and business; the national economy is political economy. Each is a

86. J.R. Commons, Institutional Economics, p.627.

87. J.R. Commons, "The Problem of Correlating Law, Economics, and Ethics," op.cit., p.5; and J.R. Commons, Institutional Economics, pp.627-648; 738.

88. J.R. Commons, Institutional Economics, pp.297, 627-628. See also J.R. Commons, The Legal Foundations of Capitalism, pp.182-213.

special case of strategic and routine transactions.⁸⁹

The problem, then, is to achieve such right proportions, and in this effort the law, government, collective organisations, and administrative economists all had a role to play. Commons did not feel that the right proportions would emerge as long as governments and courts acted on the basis of an individualistic laissez-faire philosophy, but that they could emerge from the collective action of voluntary organisations, government, and administrative agencies, through the control of limiting factors and the application of pragmatic reasoning.

To examine in any detail Commons' views on the way the economic system operates it is necessary to look at how he applied his framework to the analysis of particular problem areas. Unfortunately, much of Commons' work was completed before he fully developed the framework outlined above with the result that the correspondence between the framework and the ideas he developed on particular subjects is not always as close as could be desired.⁹⁰ Nevertheless, attention will be given to those problems with which Commons was particularly concerned; cycles and unemployment, intangible property, trade unions, and the future course of capitalism.

IV Business Versus Industry.

The distinction between business and industry is deeply

89. J.R. Commons, Institutional Economics, p.634.

90. This is particularly true of much of Commons' work on Trade Unionism which was largely completed before he turned his mind to developing the framework of analysis outlined in his later works. On the other hand, Commons' work on Cycles is well integrated with his framework, and a considerable portion of Institutional Economics is devoted to an examination of cycle theories.

woven into Commons' conceptual framework. It appears as the distinction between scarcity and efficiency, between tangible and intangible property, between bargaining transactions and managerial transactions, between exchange value and use value, and between the going business and the going plant.

Commons, as most institutionalists, was deeply concerned with the problem that profit-making may be undertaken in ways that added little or nothing to output or efficiency. Profits gained through the restriction of supply or by exerting downward pressure on input prices Commons called "scarcity profits," as opposed to "efficiency profits" gained by increasing output per man hour. Commons was also keenly aware that businessmen may attempt to protect their narrow margins for profit by gaining elements of monopoly power through combinations.⁹¹

Such actions had become possible because of the development of the corporate form of organisation. Although Commons allowed that the corporate form had an efficiency aspect, as it allowed the readier attraction of capital, it had a scarcity aspect in the encouragement it gave to the concentration of ownership.⁹² Also of importance, in Commons' view, was the recognition by the courts of intangible property and the ability to capitalise differential advantages.⁹³

The similarities between Commons' ideas on this matter and Veblen's are, of course, quite apparent, and like Veblen, Commons saw the move to concentration as an attempt by corporations to

91. J.R. Commons, Institutional Economics, pp.280, 297, 880-890.

92. Ibid., pp.342-348, 880-890.

93. Ibid., pp.649-653.

stabilise prices and avoid the "destructive" effects of competition.⁹⁴

Commons noted that, initially, government had moved against these combinations by invoking anti-trust laws and attempting to reestablish competitive conditions.⁹⁵ According to Commons such actions were eventually found to be both ineffective and incompatible with the ideals of property and liberty, which include the right to withhold.⁹⁶ The courts, then, came to recognise the idea of "reasonable restraint of trade."

Thus, with the legal power to withhold commodities and services finally recognised in law, reasonable restraint of trade, according to the court's ideas of reasonableness but contrary to the anti-trust laws, comes to have a standing in law; and its equivalent bargaining power, or intangible property, comes to have a standing in economics. For restraint of trade is bargaining power, and reasonable restraint of trade is reasonable bargaining power.⁹⁷

This highlights the difference between Commons and Veblen, and the basis of Commons' more optimistic view of the future. Commons claimed that Veblen's ideas of intangible property "rested solely on the new concept of intangible property as the present value or the future bargaining power of capitalists," whereas Commons saw his own ideas as resting on the idea of the courts' valuation of intangible property which always contained a public purpose.⁹⁸ In this manner Commons argued that "the

94. Ibid., p.779.

95. Ibid., pp.343, 779.

96. Ibid., p.344.

97. Ibid., p.344.

98. Ibid., pp.649-656. David Hamilton argues that Commons' concern with the distinction between business and industry represents a "convergence" of the ideas of the two men. While it undoubtedly demonstrates the influence Veblen had on Commons there is little evidence of a growing similarity between the two. Hamilton finds only "glimmerings" of the industry/business distinction in Commons' work and seems to think it is largely confined

Veblen conclusion reaches a theory of exploitation" while "the court reaches a theory of reasonable value."⁹⁹ Veblen eliminates purpose but the court follows a pragmatic philosophy that seeks to reconcile efficiency and scarcity aspects in the concept of reasonableness.¹⁰⁰

The historical explanation of Veblen's cynical antithesis of business and industry is in the failure to trace out the evolution of business customs under the decisions of the courts, as he had traced out the technological customs. Such an investigation reveals the evolution of his "intangible property" which has consisted in making the distinction, not allowed by Veblen, between good-will and privilege, good-will being the reasonable exercise of the power to withhold, and privilege being the unreasonable exercise of that power. It is only in the analysis of a bargaining transaction that the economic foundation for this evolution can be found. Psychologically it is the distinction between persuasion and coercion; legally it is the distinction of rights, duties, and exposures; economically it is the three differences between free competition and fair competition, between equal opportunity and discrimination, between reasonable and unreasonable price, all of which are included in the evolution of the meaning of due process of law.¹⁰¹

to his last book, The Economics of Collective Action. In fact the distinction is clearly evident in Commons' other major works, The Legal Foundations of Capitalism and Institutional Economics, and there is little evidence that Commons came any closer to the Veblenian position in his later works than he was in 1924 when The Legal Foundations of Capitalism first appeared. See D. Hamilton, "Veblen and Commons: A Case of Theoretical Convergence," South Western Social Science Quarterly 34 (1953): 47-50; A.B. Wolfe, "Institutional Reasonableness and Value," The Philosophical Review 45 (1936): 192-206; E.K. Zingler, "Veblen vs. Commons: A Comparative Evaluation," Kyklos 27 (1974): 322-341; L. Spilman, "A Comparison of Veblen's and Commons' Institutionalism," (Ph.D. Dissertation, University of Wisconsin, Madison, 1940).

99. J.R. Commons, Institutional Economics, p.653.

100. Commons does argue, however, that Veblen was forced to admit an element of purpose in his instinct of workmanship. Ibid., p.661.

101. Ibid., p.673. In fact Commons' interpretation of the history of legal decisions has itself been subject to some criticism by A.L. Harris, Economics and Social Reform (Westport, 1958), pp.219-251.

Commons spent much effort on examining the key court cases involved in the "evolution of the meaning of due process of law," and attempting to define the difference between goodwill and privilege.¹⁰² Privilege and goodwill are explained as follows:

Goodwill, indeed, is like privilege in that it is a differential advantage over competitors and yields therefore a larger profit on the actual investment. It differs, however, in that it is a fragile advantage and must be maintained by constant attention to service.¹⁰³

Put another way, goodwill is consistent with the idea of "willing patronage" and freedom of choice between producers, while privilege is not.¹⁰⁴ In dealing with public utility regulation "the practical question" is whether or not the element of goodwill "be recognised in the form of capitalization or in the form of a rate of profit."¹⁰⁵ Commons decided in favour of recognising the element of goodwill only in the rate of profit as:

Valuation of the property sets up a permanent claim against consumers regardless of the service that may be rendered thereafter. But a fluctuating rate of profit sets up no permanent claim against them as it fluctuates both with general business conditions and with the rise and fall of goodwill... Goodwill cannot properly be capitalized for rate regulation. It is an asset depending on expected service.¹⁰⁶

This "procedure of valuation" is guided by "that ethical principle which looks to the relation between service and compensation."¹⁰⁷ In the setting of "reasonable" prices there is a purpose; that

102. See for instance, J.R. Commons, The Legal Foundations of Capitalism, pp.143-388.

103. Ibid., p.213.

104. Ibid., pp.212-213.

105. Ibid., p.213.

106. Ibid., p.213.

107. Ibid., p.211.

of "setting forth an ethical relation between buyer and seller" and restoring that relationship "to what it would have been had consumers been free to choose between producers."¹⁰⁸

For price is then a measure of justice and injustice, as well as an effect of demand and supply, and when price comes to be largely controlled by governments and by associations of capital or labor it becomes increasingly a measure of justice and injustice as well as an effect of demand and supply.¹⁰⁹

V The Labour Movement.

A similar set of ideas concerning the growth of bargaining power and the role of the legal standards of reasonableness underline Commons' treatment of the labour movement. Commons saw the development of labour unions as a response to the extension of markets and the resulting increases in competitive pressure on wages. Harter has summarised Commons' views as follows:

The early unions arose when some new development threatened the security of the workers. When extending markets brought workers new sources of competition, they united to protect themselves. There was nothing sinister or subversive about such action. It was merely what might be expected of any group of people facing the same problems.¹¹⁰

Unions, then, were a reaction to competitive pressure and the resulting insecurity of employment; a countervailing force designed to protect the interests of their members,¹¹¹ an idea

108. Ibid., pp.211-212.

109. Ibid., pp.211-212.

110. L.G. Harter, John R. Commons: His Assault on Laissez Faire, p.177. See also M. Perlman, Labor Union Theories in America, pp.178-190; J.R. Commons, "American Shoemakers: 1648-1895," in Labor and Administration (New York, 1964), pp.219-264; J.R. Commons and Associates, History of Labor in the United States (New York, 1918); J.R. Commons and Associates, Documentary History of American Industrial Society (Cleveland, 1910-1911).

111. J. Barbash, "John R. Commons and the Americanization of the Labor Problem," Journal of Economic Issues 1 (1967): 161-167.

that has close similarities to the concept of "counterorganisation" developed during the New Deal, and J.K. Galbraith's idea of "countervailing power" which appears in American Capitalism, although not in his more recent work.¹¹²

This view of the development of unionism is, as Mark Perlman has pointed out, a "rejection of industrial class consciousness as a motivating force in American history."¹¹³ Commons' investigations showed that unionism "preceded industrialism," and had the purpose of protecting groups of workers from "the competition of cheaper labor."¹¹⁴ Commons divided the "menace of competition" that faced workers into an "internal" and an "external" menace. The internal menace was competition from "within the area of the existing market" while the external menace came from imports. In response to these menaces labour supported tariffs for protection from the external menace, and formed unions in an attempt to counteract the internal menace. Unions, then, simply represent "an interest group that was formed to protect and better working conditions for its membership."¹¹⁵

This lack of class consciousness within the American labour movement Commons ascribed to certain particular American con-

112. See E.H. Hawley, The New Deal and the Problem of Monopoly (Princeton, 1966), pp.187-204, 453-484; J.K. Galbraith, American Capitalism (Cambridge, 1952), pp.115-139.

113. M. Perlman, op.cit., pp.178-181.

114. Ibid., p.180. Commons' own views on theories which emphasised class consciousness can be found in J.R. Commons, "Karl Marx and Samuel Gompers," Political Science Quarterly 41 (1926): 281-286; J.R. Commons, "The Passing of Samuel Gompers," Current History 21 (1925): 670-676; J.R. Commons, "Is Class Conflict in America Growing and is it Inevitable?," American Journal of Sociology 13 (1908): 756-766. This last article represents an earlier stage in Commons' thought.

115. J.R. Commons, "American Shoemakers," op.cit., pp.261-262.

ditions. In the early years the existence of abundant land and the fact that many American workers were potential settlers and small farmers led to the workers and farmers joining together in opposition to monopoly and to the "non-producer." The "social dividing line" was not between worker and owner.¹¹⁶ Commons also mentioned factors such as the lack of feudal traditions, the relative ease with which workers could better themselves within the system, and the fact that the worker had received the right to vote at an early date, which all helped to make class consciousness a relatively weak force in American history.¹¹⁷ American unions were "wage conscious" rather than "class conscious," following a pragmatic "lower idealism" rather than an abstract "higher idealism."¹¹⁸

In this way Commons argued that unions and collective bargaining should be seen as a necessary part of the contemporary economic system, as it was only through unions and collective bargaining that workers could protect themselves from the growing bargaining power of combinations of capital.¹¹⁹

The need for collective bargaining arises from the serious discrepancy in "withholding power" between the individual employer and the individual wage earner, a discrepancy which tends to result in terms of employment highly oppressive to the worker and injurious to society in general. It is obvious

116. M. Perlman, op.cit., p.179; J.R. Commons, History of Labor in the United States 1: 4; L.G. Harter, op.cit., p.186.

117. L.G. Harter, op.cit., pp.186-187; J.R. Commons, History of Labor in the United States, 1: 5.

118. J.R. Commons, "An Idealistic Interpretation of History," in Labor and Administration, pp.25-50; M. Perlman, op.cit., pp.182-184.

119. J.R. Commons and J.B. Andrews, Principles of Labor Legislation (New York, 1936), pp.372-373. This argument was later extended to farmers; see J.R. Commons, "Legislative and Administrative Reasoning in Economics," Journal of Farm Economics 24 (1942): 369-391.

that the individual laborer is at a great disadvantage in bargaining with an employer...It is a case of the necessities of the laborer pitted against the resources of the employer.¹²⁰

In Commons' view individual bargaining between employer and employee in "any real sense" could no longer exist.¹²¹ What was required was an equalisation of bargaining power. Commons also recognised that the worker's "goodwill" was a valuable asset,¹²² and he objected to the conception of labour as a commodity or as simply an adjunct to a machine. Commons called his own view a "public utility" theory of labour, in which the health and welfare of each worker becomes a matter of public concern.¹²³

Goodwill is a matter of public importance, for it builds up a harmony of interests where both parties gain reciprocal advantage...Competition tends to bring the advanced employers down to the level of the backward. It reduces the general level. Legislation forces the worst to come up toward the level of the more advanced and eliminates the backward. It raises the general level.¹²⁴

This obviously gives labour legislation a role in promoting a higher plane of competition, but the idea of goodwill is also related to bargaining power. Commons argued that inequalities of bargaining power had adverse effects on goodwill and was "a public disadvantage."¹²⁵ Collective bargaining was therefore "good public policy--something to be encouraged."¹²⁶

120. J.R. Commons and J.B. Andrews, op.cit., p.373.

121. Ibid., p.374.

122. J.R. Commons, Industrial Goodwill (New York, 1919), pp.17-27.

123. Ibid., pp.28-36.

124. Ibid., pp.28-29.

125. Ibid., p.34.

126. J.R. Commons and J.B. Andrews, Principles of Labor Legislation, p.375, 428-429. This is in contrast to Veblen's view of "business unionism" and is also much more optimistic than

While Commons gave the state the role of raising the plane of competition through legislation concerning health, hours of labour, accident compensation and the like, and of providing a basic framework of the rights and duties of parties involved in collective bargaining, he felt that the state should interfere as little as possible in the process of bargaining and negotiation.¹²⁷

Collective bargaining was, for Commons, a kind of "collective democracy" which formed a "constitutional government" of industry, an "occupational parliament" which was more representative than governments based on territorial divisions.¹²⁸ Commons allowed that there was a need for commissions to engage in mediation, arbitration, and to administer the law, but Commons felt these commissions should be made up of representatives from the parties involved and a staff of competent experts in fields such as economics and law. The commissions would act as a quasi-judicial body and engage in "reasonable regulation through constructive research."¹²⁹

Hoxie's analysis of business unionism suggested. Despite an approving review of Hoxie's work, Commons did not follow Hoxie's lead in analysing the "psychological differences" between different types of unions. See J.R. Commons, "Hoxie's Trade Unionism in the United States," Quarterly Journal of Economics 32 (1917/18): 396-399.

127. J.R. Commons and J.B. Andrews, Principles of Labor Legislation, pp.502-534.

128. J.R. Commons, "A New Way of Settling Labor Disputes," Review of Reviews 23 (1901): 328-333.

129. Ibid., pp.331-332; J.R. Commons, "Investigation and Administration," in Labor and Administration, pp.395-424; J.R. Commons, "Constructive Research," in Labor and Administration, pp.7-13; J.R. Commons, The Economics of Collective Action, pp.261-284; A. Gruchy, Modern Economic Thought, pp.176-177; J. Dorfman, The Economic Mind in American Civilization, 4: 380.

Commons wanted the commissions to have as wide an area of discretion as possible in working out the administrative details of the labour laws, and argued that the technique to be used should be that of finding ways to benefit both sides, instead of attempting to coerce one side or the other. This attitude shows up clearly in Commons' writings on workmen's accident insurance.¹³⁰

Commons argued that even if the level of cost associated with accident insurance was small, because it fell on the narrow margin for profit, it was of strategic importance and would be taken seriously by employers and provide an incentive to increase the safety of the workplace. He also argued that safety experts could advise employers on how to improve conditions and hence reduce the cost.¹³¹

This line of reasoning concerning labour legislation has resulted in one author characterising Commons as a "conservative reformer."¹³² On the other hand, Commons' great commitment to social reform has led to others seeing him as a major figure in the movement towards a welfare state.¹³³ What is beyond doubt is that Commons combined his reformism with a distaste for compulsion and a desire to avoid any movement towards a communist

130. J.R. Commons, The Economics of Collective Action, pp.277-284; J.R. Commons, "The Industrial Commission of Wisconsin," in Labor and Administration, pp.382-394.

131. J.R. Commons, Institutional Economics, pp.840-875; J.R. Commons, The Economics of Collective Action, pp.279-283. For further information on the "margin of profit" see below section VI.

132. W.F. Kennedy, "John R. Commons, Conservative Reformer," Western Economic Journal 1 (1962): 29-42.

133. L.G. Harter, "J.R. Commons: Conservative or Liberal," Western Economic Journal 1 (1962): 226-232.

or fascist state. His aim was always to provide a framework within which conflict could be resolved while retaining the dynamism of capitalist enterprise.¹³⁴

VI Cycles and Unemployment.

Although Commons is best known for his work on trade unionism he displayed a close interest in the problem of business cycles and devoted a large amount of effort to analysing the problem. Commons disagreed with both the more simple monetary explanations of the cycle, and with the overproduction/under-consumption theories as developed by Hobson, Foster and Catchings and others. He also subjected the Veblenian treatment of cycles to criticism.

Commons attacked the usual interpretation of the quantity theory of money, arguing that PT preceded MV.¹³⁵ Commons reaches this conclusion by arguing that banks create money through the making of loans.

Instead of a quantity of money we have a variable "turnover" of bank debts, the total value of which is negotiated, created, cancelled, and renewed every 30 days or so, varying in magnitude, however, with the expected prices and quantities of commodities, services and of debts whose valuations largely determine the magnitude of further debts created by further transactions of ownership...each banker's valuation creates its own money for the transfer of ownership...All are future and the equation of exchange is always an exchange of ownerships which look to the future...Hence we should always expect PT to precede MV.¹³⁶

134. J.R. Commons, Institutional Economics, pp.896-897.

135. J.R. Commons, Institutional Economics, pp.510-513; Commons here is expanding on a view contained in M.A. Copeland's article, "Money, Trade, and Prices--A Test of Causal Primacy," Quarterly Journal of Economics 43 (1929): 648-666.

136. J.R. Commons, Institutional Economics, pp.512-513. Commons saw this as altering the idea of money from a "static idea of quantity to the dynamic idea of process. The process is the

Thus, in Commons' view, it is the expected price and quantity of future transactions that determines the size of the money supply. This stress on the role of expectations is critical to an understanding of Commons' views, and his criticisms of overproduction or underconsumption theories of depressions.

Commons identifies several different kinds of underconsumptionist or "profit share" theories of depression, but Commons' argument against all of them is essentially the same; that it is not the share of national income going to profits that is important, as profits, whether distributed or not, will find their way back into the spending stream.¹³⁷ Profits, even when undistributed,

...are either used by the corporation in the purchase of commodities and labor for expansion of plant or restoration of depreciation, or are left on deposit at the banks to be loaned to other corporations for the purchase of commodities and labor, or are invested temporarily in the securities of other corporations which are purchasing commodities and labor.¹³⁸

In contrast Commons developed what he called the "forecast" theory of money.

Each loan or discount transaction creates and extinguishes its own money in expectation of the increase in values which will be added by production and sale. The banking industry...enables each producer, in addition to funds advanced by himself without borrowing, to obtain in advance the purchasing power needed, at their present value in anticipation of their future value. The consumer's money does not circulate--it is anticipated, discounted, and extinguished in each

billions of bargaining transactions with the bankers as participants." See also J.R. Commons, H.L. McCracken, and W.E. Zeuch, "Secular Trends and Business Cycles," The Review of Economic Statistics 4 (1922): 244-263.

¹³⁷. J.R. Commons, Institutional Economics, pp.526-553.

¹³⁸. Ibid., p.537.

transaction...Consequently there is no lack of purchasing power to purchase back all of the products that are produced...All of these arguments based on too large a share of the national income going to profit as the cause of accumulations of unsalable goods followed by unemployment are fallacious. We must look elsewhere for the causes of overproduction and unemployment, which we shall find, not in the share of profit, but in the margin for profit and in the miscalculations of the forecast system of money.¹³⁹

Commons defines the margin for profit as "pure profit," that is the difference between total receipts and total costs defined to include interest payments, taxes, and depreciation. This margin Commons finds to be very narrow and significantly affected by even small changes in selling prices or in tax rates, interest rates or any other liability.¹⁴⁰

What determined whether a firm would expand or contract was the "speculative margin for profit" or the margins that the businessman expected would prevail in the future.¹⁴¹

The margin for profit is also affected by whether the general price level is rising or falling.¹⁴² If all prices are rising then the "margin for profit is increasing 20, 25 or more times as much as the rise in prices."¹⁴³ Thus, if businessmen expect prices to rise they will attempt to expand and compete to "buy first on a rising market...in order to exclude others from buying what is expected to rise in price."¹⁴⁴ In order to do this the businessman borrows from the banks and the trans-

139. Ibid., pp.549-550.

140. Ibid., pp.560-562.

141. Ibid., p.581.

142. Ibid., pp.576-582.

143. Ibid., p.581.

144. Ibid., p.557.

action creates its own money. The institution of credit "enables the businessman to buy more when prices are rising" and "compels the businessman to buy less when prices are falling."¹⁴⁵

Cycles, therefore, are a matter of the expectations of businessmen, based on the speculative margins for profit, combined with the pro-cyclical nature of the banking system. For Commons, cycles are a result of the pecuniary organisation of society. A cycle starts with any factor that causes a change in the general purchasing power of money which is the unit of business measurement; a "scarcity unit" rather than an "efficiency unit." Rising prices create an "illusion" of scarcity which creates an "illusion" of prosperity. Businessmen become confident or overconfident and through borrowing overexpand. This results in the "inevitable collapse" with unemployment, liquidation, and the break down of the credit system. Falling prices create the "illusion" of overproduction.¹⁴⁶

Commons, however, does not pinpoint any single cause for the initial rise in prices, and in some of his earlier works the factors he mentions are all exogeneous in nature.¹⁴⁷ In addition, Commons is not always clear about what exactly causes the cycle to turn, arguing that at different times there may be different "limiting factors."¹⁴⁸

145. Ibid., p.557.

146. J.R. Commons, "The True Scope of Unemployment Insurance," American Labor Legislation Review 15 (1925): 34-38; J.R. Commons, "Unemployment--Prevention and Insurance," in L.D. Edie, The Stabilization of Business (New York, 1923), pp.174-181.

147. J.R. Commons, "The True Scope of Unemployment Insurance," op.cit., p.35.

148. J.R. Commons, Institutional Economics, pp.587-588.

Commons was also aware that businessmen may attempt to protect themselves against bad times by creating a "profit cushion" out of returned earnings or by turning their "fragile profits" into a "vested interest" in the form of well secured bonds. Unlike other institutionalists such as Tugwell or Veblen, Commons did not feel that such actions called for a modification of cycle theory, as neither action affected the variability of the profit margins of corporations.¹⁴⁹

Commons policy conclusions were that to prevent an inflation the discount rate should be raised and the Federal Reserve Bank should engage in restrictive open market operations to reduce bank lending and stabilise prices. This stabilisation of "the purchasing power of money permits particular industries to expand and to contract according to their different speculative elasticities of demand or supply" but "prevents general over-expansion, because it operates upon all speculative margins for profit."¹⁵⁰

Depression is a somewhat more complex problem because it is difficult to create an increase in demand if there are "no business borrowers willing to co-operate with bankers in creating the new money."¹⁵¹ Thus:

149. Ibid., pp.582-586.

150. Ibid., p.581; see also J.R. Commons, "The Stabilization of Prices and Business," American Economic Review 15 (1925): 43-52; J.R. Commons, "Capacity to Produce, Capacity to Consume, Capacity to Pay Debts," American Economic Review 27 (1937): 681-697. J.R. Commons, "Price Stabilization and the Federal Reserve System," The Annalist 29 (1927): 459-462; J.R. Commons, "Reserve Bank Control of the General Price Level," The Annalist 30 (1927): 43-94; J.R. Commons, The Economics of Collective Action, pp.239-260.

151. J.R. Commons, Institutional Economics, p.589.

In order to create the consumer demand on which business depends for sales, the government itself must create the new money and go completely over the head of the entire banking system by paying it out directly to the unemployed either as relief or for construction of public works.¹⁵²

Commons was always a supporter of unemployment compensation but his earlier work was entirely concerned with the notion that the individual firm should pay the compensation so that it would have an incentive to stabilise employment, and bankers would not provide loans for expansion unless convinced that the firm could sustain the higher level of employment.¹⁵³ In the later work this idea persists, but it is combined with the notion that unemployment relief supplied by central government could "provide for long continued unemployment" which Commons allowed is outside of the control of individual firms or state administrators.¹⁵⁴ Commons, then, took the attitude that the reduction of unemployment required not only that prices be stabilised but also that individual firms be given incentives to stabilise their own employment practices.

In the early works Commons also argued that public works undertaken in dull times could be financed from a fund collected from government revenue in prosperous times. Commons also insisted that public works be economically sound and add to the

152. Ibid., pp.589-590.

153. J.R. Commons, "Unemployment--Prevention and Insurance," op.cit., pp.174-188; S.A. Lewisohn, E.G. Draper, J.R. Commons, and D.D. Lescoghier, Can Business Prevent Unemployment? (New York, 1925), pp.152-210; J.R. Commons, "Unemployment--Compensation and Prevention," The Survey 47 (1921): 5-9; J.R. Commons, "The True Scope of Unemployment Insurance," op.cit., pp.40-41.

154. J.R. Commons, "Unemployment Compensation," American Labor Legislation Review 20 (1930): 250-251; J.R. Commons, Institutional Economics, pp.840-875.

wealth of the community.¹⁵⁵ In the later Institutional Economics, the emphasis is on the creation of new money in order to restore purchasing power.

Commons added to these policy conclusions in his last two works on the subject, which showed a particular concern with the "credit collapse" of the Great Depression, and such New Deal programmes as the Agricultural Adjustment Act. Commons supported the efforts to regain "parity" between agricultural and industrial prices and increase the purchasing power of farmers. Although this involved the restriction of agricultural output Commons felt that such action was justified as the farmers lacked the collective organisations which would allow them to undertake the adjustment themselves.¹⁵⁶ Commons did not support any attempt at overall national planning but argued that administrative departments of government should be allowed to act quickly in response to emergencies. This "administrative economics" Commons contrasted with "legislative economics" which required specific legislation before action could be undertaken.¹⁵⁷

With the exception of such emergencies, Commons saw little need for government attempts to control production. The basic cause of the cycle was the credit system, and proper monetary controls were, in Commons' view, capable of stabilising the

155. J.R. Commons, et al., Can Business Prevent Unemployment?, pp.122-123.

156. J.R. Commons, "Legislative and Administrative Reasoning in Economics," Journal of Farm Economics 24 (1942): 369-391; J.R. Commons, The Economics of Collective Action, pp.209-238.

157. J.R. Commons, "Legislative and Administrative Reasoning in Economics," op.cit., pp.382-385.

the system. In this Commons was influenced by writers such as WickSELL, Cassel, and Sedgewick,¹⁵⁸ although the idea that the banking system behaved in a pro-cyclical fashion was not uncommon in institutionalist thought. Similar ideas can be found in the writings of Veblen, Mitchell, and Stewart.¹⁵⁹

Commons, on the other hand, never viewed national planning as a desirable alternative. He argued that as wide a field as possible should be left to private initiative, and he doubted the competence of government to undertake such a task. Commons' policy measures were designed either to provide an incentive to desirable action, or to allow administrative departments equipped with expert knowledge a broad freedom of action in responding to the need for adjustment. In both cases the idea was to locate and act on the limiting factor.¹⁶⁰ Thus, while Commons saw his views as opposed to laissez-faire and talked in terms of collective action and "managed recovery,"¹⁶¹ his policy recommendations were considerably less sweeping than those developed by Mitchell or Tugwell.¹⁶²

VII The Course of Capitalism.

In describing the evolution of the economic system Commons confined himself to the development of capitalism, and did not delve further back into history. Commons divided the history of

158. J.R. Commons, Institutional Economics, pp.590-619; J.R. Commons, et al., "Secular Trends and Business Cycles," op.cit., pp.244-263.

159. See above chapters 4, 5, and 6.

160. J.R. Commons, Institutional Economics, pp.891-903.

161. Ibid., p.611.

162. See chapters 6 and 8. Commons also criticised Veblen for failing to see that credit cycles could be stabilised with appropriate controls. Commons placed the blame for this on Veblen's confusion between intangible property and credit. See J.R. Commons, Institutional Economics, pp.676-677, 874-875.

capitalism into three "industrial" stages: merchant capitalism, employer capitalism, and banker capitalism.¹⁶³ Commons also identified three corresponding "economic stages," that of scarcity which preceded the industrial revolution, that of abundance which came into being along with the industrial revolution, and that of stabilisation which began in the later nineteenth century.¹⁶⁴

Merchant capitalism arose out of the extension of markets and the gradual separation of the merchant and employer functions from the labour function. Employer capitalism came with technological advances which separated merchant and employer, furthered the division between employer and employee, and saw the manufacturer attempting to "pass around" the merchant's control of markets by setting up retail stores and "building up a customer's good will." Employer capitalism developed with further combinations and vertical integration, and it was "this integration and consolidation of plants" that introduced the stage of banker capitalism.¹⁶⁵

Banker capitalism developed in the twentieth century with the banking syndicate or the investment banker due to their "dominant position in the consolidation of industries, the sale of foreign and domestic securities to the public and the control of boards of directors whose corporate securities they sold and became substantially responsible for."¹⁶⁶

These industrial stages are linked to a set of "economic

163. J.R. Commons, Institutional Economics, pp.763-773.

164. Ibid., p.773.

165. Ibid., pp.763-773.

166. Ibid., p.773.

stages" based on "the distinction between physical control and legal control."¹⁶⁷ The period of scarcity is that in which legal control and physical control are not separated. With the gradual development of credit, manufacture for future sale and delivery, and the notions of incorporeal and intangible property, legal and physical control were separated. With this development, combined with the new productive power of machine industry, came the stage that Commons called "abundance," but its principle characteristic was that of instability, and "destructive, unfair, or cutthroat competition."¹⁶⁸

The response to instability and destructive competition was for manufacturers to combine in order to provide a degree of stability. At first this development was resisted by the courts, but with the acceptance of the need for stabilisation the third stage was entered upon, a period characterised by the attempt to stabilise prices, wages, and employment by corporations, unions, banks, and government.¹⁶⁹

Looking toward the future of this period of stabilisation Commons saw several alternatives:

It is here, when we come to the banking system, that the post-war economists of the world are forming a new alignment, which may be distinguished as the Bargaining School and the Managerial School of economists. Both arise from the same causes, periodic overproduction and unemployment, but they reach different conclusions as to the future and the remedies. The managerial school...looks to a great Economic Planning Council which shall prevent overproduction and unemployment by rationing. The bargaining school looks to a concerted international money and banking policy...designed to prevent recurrence of overproduction and unemployment by stabilizing the general level of prices. The ultimate

167. Ibid., p.773.

168. Ibid., pp.773-779.

169. Ibid., pp.779-780.

difference between the schools is that the bargaining school endeavors to retain, under new conditions, the older principles of equality and liberty...while the managerial schools rest on the still older principle of superior and inferior...The one looks to equality of Bargaining power, the other towards rationing of producing power. The one looks towards Reasonable Capitalism, the other towards Communism or Fascism.¹⁷⁰

It is clear from Commons' writings on this subject that he had a strong preference for "Liberalism and Democracy." While Commons argued that "the older individualism of free individual action" was no longer possible he felt that the same values could be preserved in the form of voluntary associations.¹⁷¹ In this way Communism, or Fascism could be avoided.

At any rate, when once it is recognised that this is no such thing as an automatic harmony of economic interests, either under capitalism or future socialism...then some progress can be made toward approaching, not an ultimate ideal of harmony, but merely that series of next steps which will keep the concern improving from day to day-- the Reasonable Stabilization of Capitalism.¹⁷²

VIII Commons and Institutionalism.

Commons' ideas show a much stronger link with the work of Ely and Adams than that of most other institutionalist writers. His concern with law and ethics, his view of the possibilities of collective bargaining, his emphasis on the place of competition, his idea of "just" or reasonable prices, and his characterisation of the evolutionary process as the outcome of

170. Ibid., p.1891. See also J.R. Commons, "Communism and Collective Democracy," American Economic Review 25 (1935): 212-223; J.R. Commons, "Marx Today: Capitalism and Socialism," Atlantic Monthly 136 (1925): 682-693.

171. J.R. Commons, Institutional Economics, pp.902-903.

172. J.R. Commons, "Marx Today: Capitalism and Socialism," op.cit., p.693.

human will, all find their precedents in the work of the new school writers.¹⁷³

The strength of the influence of Ely and Adams provides a major difference between Commons and most other institutionalist writers. Veblen's ideas concerning "blind causation" are absent from Commons' work, and while Commons was clearly aware of the impact of technical and economic changes on institutions, his emphasis was always on how the human will could, through institutions, control and modify these changes.

Admittedly other institutionalists such as Mitchell, Tugwell, Ayres, and Hamilton were also pragmatists, and saw the possibility of introducing "intelligent direction" into the evolutionary process. However, they still regarded the present state of affairs as the outcome of circumstance and expediency rather than of purpose or intent, and had a less optimistic view of the potential role of trade unions or of changes in law. Mitchell and Tugwell also argued that cycles and unemployment were due to more than monetary factors, and stabilisation would require national planning.¹⁷⁴

Commons, like Ely and Adams, gives the impression that economic institutions are the outcome of conscious intent. While there may be an element of overstatement in this, due, in part, to Commons' confusion of the positive and the normative, Commons' ideas do imply that institutional change is the result of

173. See above chapter 3.

174. See chapters 4, 5, 6, 8, and 9; and F.H. Knight, "Institutionalism and Empiricism in Economics," American Economic Review 42, supp. (1952): 51-53.

purposeful reactions to alterations in economic and technical conditions. This involves a rejection of determinism and a fairly optimistic view of the system's ability to adjust in order to maintain a "workable mutuality."

This is not to suggest that Commons ever thought the economy could adjust without government intervention. It must be stressed that, for Commons, government action in response to new conditions or new pressure groups was an integral part of the system. Nevertheless, Commons' arguments concerning the nature of business depressions, the adaptability of common law, and the potential role of voluntary collective organisations, provide a smaller role of central government than that thought necessary by many other institutionalists of his time.¹⁷⁵

Although no other writer attempted to take over the whole of Commons' legal/economic framework, his work had a considerable influence on those who worked with him at Wisconsin. These writers share Commons' volitional approach, his view of voluntary collective organisations, his distaste of national planning, and his concern with law. This has led several commentators to identify a Commons' "wing" to the institutionalist movement,¹⁷⁶ which would include such writers as S. Slichter,

175. W.H. Hamilton and J.M. Clark came closest to Commons' position, but Hamilton shared Hoxie's more pessimistic view of unions, and came to doubt the ability of the law to adjust rapidly or to cope with economic problems and conflicts. Clark advocated national planning and based his theory of cycles on the idea of the accelerator. See above chapter 5 and J.M. Clark, The Social Control of Business (New York, 1939), pp.123, 516-518.

176. See for instance D. Seckler, Thorstein Veblen and the Institutionalists, p.5; J.E. Robertson, "Folklore of Institutional Economics," Southwestern Social Science Quarterly 41 (1960): 22-23; A. Gruchy, "Institutional Economics: Its Development and Prospects," in Economics in Institutional Perspective, eds., R. Steppacher, B. Zogg-Walz, and H. Hatzfeld (Lexington, 1977), pp.23-25. Gruchy

S. Perlman, E. Witte, H. Groves, K. Parsons, I. Cross, E.H. Downey, and more recently, Warren J. Samuels. Unfortunately, not all of these writers can be considered here.

Slichter comes closest to Commons in his views on collective bargaining, arguing that:

...it is a method of introducing civil rights into industry, that is, of requiring that management be conducted by rule rather than by arbitrary decision. In this...collective bargaining becomes a method of building up a system of "industrial jurisprudence."¹⁷⁷

Slichter, however, was aware that this system may have several shortcomings, particularly the difficulty of changing the rules to fit changing conditions, and avoiding the possibility that rules may be established simply to protect the interests of those currently in employment, with little regard to long run benefits.¹⁷⁸

Slichter's work also contains a treatment of cycles in many ways similar to Commons'. Slichter mentions the pro-cyclical nature of the credit system, the fact that production is carried on for future sale, which introduces an element of speculation and uncertainty, and that decisions concerning the level of production are undertaken on the basis of the expected trend of prices which is itself based on the present course of prices

is a dedicated opponent of the approach of Witte and Witte's pupil, W.J. Samuels, and contrasts their views unfavourably with those of "mainstream institutionalism," which appears to involve a degree of economic or technological determinism and a belief in national planning.

177. S. Slichter, Union Policies and Industrial Management (Washington, 1941), p.1.

178. Ibid., pp.572-579. See also S. Slichter, Modern Economic Society (New York, 1931), p.203; it is this work that Knight is objecting to in his article, "The Newer Economics and the Control of Economic Activity," Journal of Political Economy 40 (1932): 433-476.

rather than any long term view. In this way any downward movement becomes cumulative as does any upward movement.¹⁷⁹

Slichter's treatment, however, does owe something to Mitchell as well as to Commons and this is made clear in his discussion of the role of inventory investment and certain lags in the movement of prices.¹⁸⁰ Nevertheless, like Commons, Slichter argues for stabilisation through Federal Reserve Bank operations to control credit and the discount rate, and the use of public works financed by new money in depressions when the private demand for bank credit is low.¹⁸¹

Slichter supported the kind of health and welfare legislation that Commons did so much to forward,¹⁸² and although not quite as antagonistic to national planning as Commons, Slichter was afraid that a national planning council might become a barrier to experimentation with forms of control that would invest business, labour, and consumers with the power of control, rather than politicians.¹⁸³

S. Perlman was also primarily influenced by Commons' work on trade unions. Perlman attempted to extend Commons' treatment of unions by including a consideration of "group psychology" in the analysis. Perlman identified a "scarcity consciousness" which pervaded the attitudes of workers. This scarcity is a perceived scarcity of job opportunities, and it is control over

179. S. Slichter, Modern Economic Society, pp.203-259 and 448-491.

180. Ibid., pp.459-471.

181. Ibid., pp.471-491.

182. Ibid., pp.865-868.

183. Ibid., pp.872-886.

these job opportunities that workers most desire.¹⁸⁴

Like Commons, Perlman saw unions as primarily wage and job conscious and following a pragmatic philosophy based on the desire to "become the virtual owner and administrator" of job opportunities.¹⁸⁵ In this manner Perlman developed a theory of the psychology of workers which complements Commons' ideas concerning the extension of markets and unionism as a reaction to competitive pressure.¹⁸⁶

Perlman was particularly critical of the intellectual who views unionism as a revolutionary force. Perlman sees a basic contradiction between the "mentality" of the union leader and the intellectual. The intellectual conceives of labour as an

184. S. Perlman, A Theory of the Labor Movement (New York, 1949), pp.237-253.

185. Ibid., p.199. See also M. Perlman, Labor Union Theories in America, pp.190-202.

186. There has been some debate over the relationship between Perlman's and Commons' views on the labour movement. While the psychological element in Perlman's later work is very largely absent from Commons', Perlman's early work shows a commitment to Commons' views. Despite many differences in the historical interpretation of the trade union movement, Perlman's later work can be interpreted as an attempt to provide a more general theoretical foundation for the Commons' view of unions as wage conscious. For Perlman's early views see S. Perlman, A History of Trade Unionism in the United States (New York, 1950), pp.265-284; and compare with S. Perlman, A Theory of the Labor Movement, pp.154-279. For the debate over Perlman's and Commons' ideas see L.G. Harter, op.cit., pp.189-191; M. Perlman, op.cit., pp.190-210; R. Ozanne, "The Labor History and Labor Theory of John R. Commons," in Labor Management and Social Policy, ed., G. Somers (Madison, 1963), pp.25-46; P. Taft, "Commons-Perlman Theory: A Summary," Proceedings of the Third Annual Industrial Relations Research Association 3 (1950): 140-145; C.A. Gulick and M.K. Bers, "Insight and Illusion in Perlman's Theory of the Labor Movement," Industrial and Labor Relations Review 6 (1953): 510-531; P. Taft, "A Rereading of Selig Perlman's A Theory of the Labor Movement," Industrial and Labor Relations Review 4 (1950/51): 8-14; P. Taft, "Professor Perlman's Ideas and Activities," Proceedings of the Twelfth Annual Meeting of the Industrial Relations Research Association 12 (1959), pp.8-14; A. Sturmthal, "Comments on Selig Perlman's A Theory of the Labor Movement," Industrial and Labor Relations Review 4 (1950/51): 483-496.

"abstract mass in the grip of an abstract force" and driven towards "a glorious ultimate social goal." Perlman allows that the intellectual has played an important part in the history of unionism, but argues that"

The trade union leader sees the labor movement climbing a difficult road...toward a civilized level of existence...With every stretch of the road that has been covered labor is acquiring an ever stronger incentive to turn a deaf ear to the preachers of a complete upsetting of the established political and industrial order.¹⁸⁷

Perlman, again like Commons, viewed the union and collective bargaining as a step toward an "industrial democracy" and cooperation.

The likelihood of that spirit of co-operation developing in unionism increases in the measure that its position in industry approaches a securely rooted "institutionalization." A unionism that has become institutionalized, while seeking to continue its shop and job control, will more and more depart from the older and cruder methods of sheer restrictiveness,...and swing towards a partnership with the employer-manager group for the creation of a higher industrial efficiency. For unionism cannot fail to see that, after a certain point has been reached, higher labor standards can come only from a higher efficiency.¹⁸⁸

E. Witte worked with both Commons and Perlman at Wisconsin and concentrated most of his efforts on investigating and promoting social security.¹⁸⁹ Witte followed a methodology based on problem solving, and viewed institutional economics as a method of investigation rather than a "connected body of

187. S. Perlman, A Theory of the Labor Movement, pp.300-301.

188. Ibid., pp.316-317.

189. See S.J. Cohen, "Edwin E. Witte (1887-1960): Father of Social Security," Industrial and Labor Relations Review 14 (1960): 7-9.

thought."¹⁹⁰ Nevertheless, in his course of institutional economics at Wisconsin, and in a few published articles, Witte attempted to work out some generalisations concerning the operation of the economy on the basis of ideas provided by Commons supplemented by his own investigation and experience.¹⁹¹

In Witte's view government could not be separated from the operation of the economy. He argued that "there has never been in the United States or elsewhere...an economy free from all government control."¹⁹² Laissez-faire was therefore an historical fiction, except as the term was used to cover and justify "what the businessman wanted government to do for business."¹⁹³

Government is necessarily linked to the economy through its role as a "rule maker, umpire and protector" of certain basic economic institutions. For Witte, as for Commons, economic institutions are legal creations and the rules that govern them are changeable. Witte argued that "with changing conditions there must be changes in the rules of the game." These changes in the rules of the game would be introduced by government "in response to expressed desires and pressures" exercised by voluntary associations.¹⁹⁴

Such a system Witte called the "collective bargaining state," characterised by diffusion of power and "pluralism."¹⁹⁵ Govern-

190. E.E. Witte, "Institutional Economics as Seen by An Institutional Economist," Southern Economic Journal 21 (1954): 131-133.

191. W.J. Samuels, "Edwin E. Witte's Concept of the Role of Government in the Economy," Land Economics 43 (1967): 131-147.

192. Ibid., p.134.

193. Ibid., p.135 and E.E. Witte, "Economics and Public Policy," American Economic Review 47 (1957): 6.

194. W.J. Samuels, op.cit., pp.136-141.

195. Ibid., pp.140-146; E.E. Witte, "Institutional Economics as Seen by an Institutional Economist," op.cit., pp.136-137.

ment, although it had a large and important role to play, was not "all powerful," and much should be left to the bargaining of voluntary collective organisations. Here again the idea of an industrial democracy made up of trade unions and employer's associations comes to the fore.¹⁹⁶

In essence, Witte presented Commons' system of thought although with much of the role of common law left out, and with somewhat more importance placed on the legislative acts of government. Witte, however, shared Commons' combination of radicalism and conservatism. As Cohen has argued, Witte was:

...radical in espousing reforms and challenging the status quo; conservative in that these reforms, by moderating abuses, preserved the free enterprise economic system, the federal-state political structure, and the democratic political process.¹⁹⁷

The most recent writer to emerge in the Commons' tradition is W.J. Samuels, who was a pupil of Witte's at Wisconsin. Since late in 1971 Samuels has been editor of the Journal of Economic Issues, which is published by the Association for Evolutionary Economics.¹⁹⁸

Perhaps the major difference between Samuels and his teacher is in their views on methodology. Samuels admits that many

196. W.J. Samuels, op.cit., p.142; E.E. Witte, "Economics and Public Policy," op.cit., pp.8-9; E.E. Witte, "Role of Unions in Contemporary Society," Industrial and Labor Relations Review 4 (1950): 3-14. It is interesting to note that in this article Witte quotes H.C. Adams' views on the role of government and the A.E.A. platform which was largely a product of R.T. Ely. See above chapter 2.

197. W.J. Cohen, op.cit., p.8; also quoted by W.J. Samuels, op.cit., p.147.

198. The Association was founded largely through the efforts of A. Gruchy in 1958 to provide an association for institutionalist and heterodox economic thought.

institutionalists follow Witte's idea of institutionalism as problem solving with its downplaying of the role of general theory, and that institutionalists have not developed a satisfactory general theory. On the other hand, Samuels argues that such a general theoretical framework is required, and is not so adverse to model building as Witte. Samuels argues that both theoretical model building and "objective, positive, empirical," studies are required.¹⁹⁹

Samuels' major interest is in developing what he calls a theory of economic policy, meaning by that a theory of the determinants of government action, including such things as the legal system and the distribution of power. So far Samuels' work has concentrated on the history of economic thought as it applies to policy making, and to elucidating the difficulties that must be overcome and the research that must still be undertaken before such a theory can be developed.²⁰⁰

Despite the fact that Samuels' endeavour is far from com-

199. See E.E. Witte, "Institutional Economics as Seen by an Institutional Economist," op.cit., pp.131-133, 135, 137-140; and W.J. Samuels, "On the Future of Institutional Economics," Journal of Economic Issues 3 (1969): 67-72; W.J. Samuels, "Institutional Economics: Retrospect and Prospect," p.12; W.J. Samuels, "The Journal of Economic Issues and the Present State of Heterodox Economics," p.5; W.J. Samuels, "Approaches to Legal-Economic Policy and Related Problems of Research," in S.S. Nagel, ed., Policy Studies and the Social Sciences (Lexington, 1975), pp.65-73. A. Gruchy has objected to the idea that institutionalism does not possess an adequate general theory and has attacked Samuels' approach. See A. Gruchy, "New Directions in Institutional Economics," mimeographed (1977), pp.12-16; A. Gruchy, "Institutional Economics: Its Influence and Prospects," op.cit., pp.2-4.

200. W.J. Samuels, "Approaches to Legal-Economic Policy and Related Problems of Research," op.cit., pp.65-73; W.J. Samuels, Pareto on Policy (New York, 1974); W.J. Samuels, The Classical Theory of Economic Policy (Cleveland, 1966); W.J. Samuels, "The Scope of Economics Historically Considered," Land Economics 48 (1972): 248-268; W.J. Samuels, "On the Future of Institutional Economics," op.cit., pp.67-72.

plete some interesting lines of thought have emerged. Samuels starts from a critique of orthodox microeconomics, and particularly of welfare economics.

Microeconomics is primarily concerned with the theory of the allocation of resources through the market. It is formal, static, partial equilibrium analysis. It is formal in that it does not directly encompass specific content of economic decision-making but presents functional tendencies which abstract from the radical indeterminacy of the real world, specifically from the forces governing the preferences and social values given effect through the market and the institutions which weight alternative preferences and values...Microeconomics takes for granted... the development, operation, and change of the legal and moral rules governing the terms of access to and participation in the economy by various potential economic actors.201

This argument leads directly to the criticism of "normative welfare economics"

...because the substance of particular optimality solutions are a function of the antecedent specification of rights there is no unique Pareto optimal solution but a family of such solutions, each of which is correlated with a particular structure of rights, or power. There is, then, considerable opportunity for implicit ethicizing as particular applications of the Pareto rule give effect to some selectively perceived or chosen rights and not to others. Conclusions as to optimality thus tend to depend upon the factors given normative status ab initio, so that policy conclusions generally are tautological with the premise assumed. Normative welfare economics, more specifically the so-called new welfare economics, is also highly consonant with libertarianism and laissez-faire conservatism.202

Samuels has also directed attention to the Coasian view of

201. W.J. Samuels, "Approaches to Legal-Economic Policy and Related Problems of Research," op.cit., pp.65-66.

202. Ibid., p.66; see also W.J. Samuels, Pareto on Policy, pp.183-207.

the relationship between law and economics,²⁰³ and the attempts to use microeconomic ideas in the construction of models of property rights and public choice, often referred to as the PR-PC school.²⁰⁴ The Journal of Economic Issues has opened its pages to a large number of articles touching on these concerns.²⁰⁵

Samuels, and those who share his viewpoint, argue that the theories developed by Coase, Buchanan, and others are objectionable on a number of grounds. The Coasian view that "the allocation of resources is independent of property rights and liability rules," provided that transaction costs are zero, and that policy should be directed at reducing transaction costs and creating markets, is attacked as an inadequate and value laden treatment.²⁰⁶

203. W.J. Samuels, "The Coase Theorem and the Study of Law and Economics," Natural Resources Journal 14 (1974): 1-33.

204. W.J. Samuels, "Interrelations Between Legal and Economic Processes," Journal of Law and Economics 14 (1971): 435-450; W.J. Samuels and J.M. Buchanan, "On Some Fundamental Issues in Political Economy: An Exchange of Correspondence," Journal of Economic Issues 9 (1975): 15-38.

205. See particularly V.P. Goldberg, "Public Choice--Property Rights," Journal of Economic Issues 8 (1974): 555-579; D. Kanel, "Property and Economic Power," ibid., pp.827-840; S. Todd Lowry, "Bargain and Contract Theory in Law and Economics," Journal of Economic Issues 10 (1976): 1-22; H.H. Liebhafsky, "Price Theory as Jurisprudence: Law and Economics Chicago Style," ibid., pp.22-43; V.P. Goldberg, "Towards an Expanded Economic Theory of Contract," ibid., pp.45-61; A. Allan Schmid, "The Economics of Property Rights: A Review Article," ibid., pp.159-168; V.P. Goldberg, "Commons, Clark, and the Emerging Post-Coasian Law and Economics," ibid., pp.877-893; J. Lada, "An Exchange Economy with Legally Binding Contract: A Public Choice Approach," ibid., pp.905-922; D. Bramley, "Property Rules, Liability Rules, and Environmental Economics," Journal of Economic Issues 12 (1978): 23-41; A. Randall, "Property Institutions and Economic Behavior," ibid., pp.1-21.

206. W.J. Samuels, "The Coase Theorem and the Study of Law and Economics," op.cit., passim.

Samuels has argued that the existence of significant transaction costs is usual, and that, therefore, the structure of rights is important in the allocation of resources as it determines which costs shall be taken into account. The importance of rights is evidenced by the fact they are valued and sought after. Thus "the legal system delimits the bargaining system" and the resulting allocation is "specific to the underlying rights structure."²⁰⁷

Concerning the PR-PC school attempts to develop positive theories of government and the evolution of law, Samuels argues that the result is partial and incomplete. He claims that:

The political economist...must study more than choice from within opportunity sets...and study the formation of the structure of opportunity sets, as they are in the real world...²⁰⁸

The formation of opportunity sets involves the power structure which may operate through government. In Samuels' view the interrelationships between government, the law, the power structure, and the distribution of income and wealth, are extremely complex, with lines of causation frequently running in more than one direction.²⁰⁹

This leads to the criticism of Coase and the PR-PC theorists on the grounds that their work is, in reality, a normative rather than a positive endeavour. Samuels points out that "the fact that the status quo does exist," a status quo which "govern-

207. Ibid.

208. W.J. Samuels and J.H. Buchanan, "On Some Fundamental Issues in Political Economy," op.cit., p.29.

209. W.J. Samuels, "Interrelations Between Legal and Economic Processes," op.cit., passim.

ment has been used to support," does not "mean that it ought to be defended by any rule like that of unanimity."²¹⁰ Their framework only approves of changes in the structure of rights if those changes will allow the creation of a market or reduce transactions costs. The possibility of utilising the law as an instrument to achieve different distributions or maximise an objective function is ruled out. Samuels, Alan Randall, and others have argued that this amounts to treating rights only as a means to achieving a Pareto Optimal allocation, rather than as a set of "working rules" selected to achieve a socially acceptable distribution of costs and benefits or power.²¹¹

While no clear alternative has yet emerged from the institutionalist writers involved in this debate, it is both suggestive, and a clear indication that interest and concern with the ideas developed by Commons and Witte are still strong and well represented within the modern institutionalist movement.

IX Evaluation.

Although Commons' framework has great interest, it cannot be said that it represents, in the form he left it, an entirely satisfactory one. Commons' view of the process of institutional change rests on the ideas of willingness, purpose, and reasonableness. The economic system is conceived of as consisting of organised groups and individuals, each pursuing their own interests, but controlled in the public interest by government

210. W.J. Samuels and J.M. Buchanan, op.cit., pp.30-31. See also W.J. Samuels, "The Coase Theorem and the Study of Law and Economics," op.cit.

211. W.J. Samuels and J.M. Buchanan, op.cit., pp.30-31; A. Randall, op.cit., pp.8-14; H.H. Liebhafsky, "Price Theory and Jurisprudence," op.cit., pp.37-41.

and by the courts which make and remake the common law on the basis of the principle of reasonableness. The courts' definition of reasonableness "artificially" selects desirable from undesirable practices and therefore shapes the process of evolution.

The first difficulty with this view is that the concept of reasonableness can only be defined in relation to current practices. Hence, the basis for the "artificial" selection are practices that have already been selected. The question in essence is whether the legal standard is a cause or an effect of economic evolution. Both M.A. Copeland and J.M. Clark have pointed to this problem,²¹² and I.L. Sharfman has argued that legal evolution is to be seen more correctly as a response to changes in economic conditions and theory.²¹³ Sharfman takes this last argument a stage further when he argues that:

...it appears improbable that the realm of law will provide a basis for the radical reconstruction of economic theory. On the contrary, it is much more likely that the course of legal development will be effectively influenced by the labors of economists within their own domain.²¹⁴

Commons, of course, does not suggest that economic changes; for instance the widening of markets, the industrial revolution, the development of the credit system; are not important causal elements, but the law is given the key role in shaping these developments. The difficulty here is if economic or technological

212. M.A. Copeland, op.cit., p.343; J.M. Clark, The Social Control of Business, p.123.

213. J.M. Clark, op.cit., p.123; I.L. Sharfman, "Commons' Legal Foundations of Capitalism," Quarterly Journal of Economics 39 (1925): 311.

214. I.L. Sharfman, op.cit., p.311.

factors are important then doubts must be raised concerning the adequacy of the principle of willingness. To what extent can the industrial revolution or the development of the credit system be seen as the outcome of conscious human purpose? As Seckler has argued, Commons seems unaware of the importance of the unintended consequences of intended action.²¹⁵ It is worth noting that although Commons included custom in his definition of institutions, he in fact confined his analysis to organised institutions and the law. To include customary behaviour in the same manner as Veblen did would again throw the role of willingness into doubt. The role of custom, or, indeed, of legal precedent or political power, in preventing or hindering desirable changes, is not often evident in Commons' work, a fact that illustrates the tendency for the normative elements in Commons' work to confuse and obscure the positive.

Another illustration of the power of the normative elements in Commons' ideas, and those taken up by his followers, is to be found in their continued attachment to the idea of the equalisation of bargaining power leading to more reasonable outcomes. As Hawley notes, the experience of the New Deal would suggest that the formation of new organisations may lead to each group attempting to gain monopoly power and to gain "a larger piece of a pie" that is not necessarily gaining in size.²¹⁶ Galbraith has also abandoned the notion of countervailing power

215. D. Seckler, "The Naivete of John R. Commons," Western Economic Journal 4 (1966): 261-267. Commons frequently overstated the role of purpose and intent. See for instance J.R. Commons, The Legal Foundations of Capitalism, pp.367-377.

216. E.H. Hawley, op.cit., pp.483-484.

as a regulating force, as in Galbraith's more recent analysis the existence of monopoly power on both sides of the labour market may simply result in inflation rather than "reasonable stabilization."²¹⁷ Nevertheless, the idea that equal bargaining power can create "justice" is still evident in the writings of those in the Commons' wing of institutionalism.²¹⁸

Olson has taken the criticism of Commons' view of collective action further in his argument that there is a logical inconsistency in the idea of a group consisting of self interested individuals. This inconsistency is that individuals interested in protecting their own interests may "not voluntarily make sacrifices to help their group." Therefore the group may remain "latent."²¹⁹ Also:

Since relatively small groups will frequently be able voluntarily to organise and act in support of their common interests, and since large groups will normally not be able to do so, the outcome of the political struggle among the various groups in society will not be symmetrical.²²⁰

There is another weakness with Commons' idea of reasonableness which has been pointed out by A.L. Harris.

In Commons' use, the idea of reasonable value is broadened to mean the exercise of "reasonable power" and to include such things as "reasonable safety," "reasonable wage" and "reasonable conduct of public officials and citizens." If, as Bonbright suggests, the doctrine of reasonable value has been

217. See J.K. Galbraith, American Capitalism, pp.133-136, 195-208, and J.K. Galbraith, Economics and the Public Purpose (Boston, 1973), pp.182-197, 318.

218. See J. Barbash, "The Legal Foundations of Capitalism and the Labor Movement," Journal of Economic Issues 10 (1976): 799-810.

219. M. Olson, The Logic of Collective Action (Cambridge, Mass., 1973), pp.125-126.

220. Ibid., p.127.

full of ambiguity and is now of uncertain status in federal adjudication of utility rate making, one should be extremely skeptical of Commons' theory which expands the meaning of the doctrine into a regulatory principle for the economy as a whole and makes the Court the final arbiter in the application of the principle.²²¹

Commons' overstatement of his principle of willingness and the role of law are important weaknesses in his legal/economic framework, but there are others. Commons' framework is frequently convoluted, difficult, and lacking in analytic and predictive value. Most of Commons' substantive statements about the nature of the economy could have been presented in simpler form, and even some of Commons' basic distinctions, such as the various types of transactions, are difficult to maintain on close examination. Given the close interaction between factor markets, income distribution, and the input combinations used by firms, the distinctions between rationing, bargaining, and managerial transactions seem impossible to maintain except in legalistic terms.

Prediction, too, is a problem given the methodology Commons followed and his emphasis on "understanding." Yet Commons, as a pragmatist interested in policy, desired to "predict" consequences.²²² Commons' methodology led him, and those who followed him, into an extreme anti-formalism and a confusion between the positive and normative.²²³ Commons' view of the potential role

221. A.L. Harris, Economics and Social Reform, p.269.

222. J.R. Commons, Institutional Economics, pp.100-102.

223. See for instance E.E. Witte, "Institutional Economics as Seen by An Institutional Economist," op.cit., passim; N.L. Silverstein, "An Appraisal of Institutional Economics: Comment," American Economic Review 22 (1932): 268-269; F.P. Hall, "Toward Understanding Institutionalism," Indian Journal of Economics 37 (1960): 177-186; and most recently C.K. Wilber and D.S. Harrison,

of collective organisations and "industrial government" is not a testable hypothesis. In practice the emphasis on prediction in the work of pragmatic institutionalists becomes an espousal of "experimentation," which as far as policy goes seems to be little more than a "trying out" of ideas. That such experimentation may lead to irreversible or unforeseen consequences does not appear to worry Commons, who refers to a willingness to "take chances." It is surely the case that part of the justification of formal model building is that it can help to avoid the need to take such chances.²²⁴

There is, however, some evidence that with writers such as Warren Samuels there is at least a recognition of these problems. Thus Samuels is concerned with both prediction and "interpretation," with attempting to distinguish positive statements from normative ones, and is deeply aware of the highly complex nature of legal-economic processes. Nevertheless, one can only agree with Samuels that advances toward a more satisfactory treatment of legal-economic interrelationships "would be no mean feat."²²⁵

"The Methodological Basis of Institutional Economics," Journal of Economic Issues 12 (1978): 61-89.

224. See F. Knight, "The New Economics and the Control of Economic Activity," op.cit., p.476; and J.R. Commons, Institutional Economics, p.102.

225. See W.J. Samuels, "Approaches to Legal-Economic Policy and Related Problems of Research," op.cit., passim.

CHAPTER 8

REXFORD G. TUGWELL:

INSTITUTIONALISM AND ECONOMIC PLANNING

R.G. Tugwell was a pupil of S.N. Patten's at the Wharton School, and he remained heavily influenced by some of Patten's ideas, most particularly the notion of potential abundance.¹ Tugwell, however, did not attempt to follow Patten's convoluted theoretical framework but followed a line that was heavily influenced by Dewey's pragmatism and the ideas of Veblen, Mitchell, and others.²

Tugwell's career included a lengthy period at Columbia University which brought him into contact with other faculty

1. For biographical information and a summary of Tugwell's thought see J. Dorfman, The Economic Mind in American Civilization, 5: 502-515; A. Gruchy, Modern Economic Thought, pp.405-470; B. Sternsher, Rexford Guy Tugwell and the New Deal (New Brunswick, 1964), pp.3-25; M. Mann, "Rexford Guy Tugwell, Institutional Economist," (M.A. thesis, Boston University, 1952), pp.1-49. For Tugwell's views on Patten see R.G. Tugwell, "Notes on the Life and Work of Simon Nelson Patten," Journal of Political Economy 31 (1923): 153-208.

2. See R.G. Tugwell, "Veblen and Business Enterprise," The New Republic 98 (1939): 215-219; R.G. Tugwell, "Wesley Mitchell: An Evaluation," The New Republic 92 (1937): 238-240; R.G. Tugwell, "The New Deal: The Progressive Tradition," Western Political Quarterly 30 (1950): 390-427; R.G. Tugwell, T. Munroe, and R.E. Stryker, American Economic Life and the Means of its Improvement (New York, 1925); and R.G. Tugwell and H.C. Hill, Our Economic Society and Its Problems (New York, 1934).

members such as W.C. Mitchell, J. Dewey, H. Taylor, G. Means, F.C. Mills, and A.A. Berle.³ Tugwell was also very closely involved with the New Deal, first of all as a member of the so-called "brains trust" with A.A. Berle,⁴ and later as Assistant Secretary in the Department of Agriculture.⁵ Tugwell's views on the depression are of particular interest as they show similarities to ideas expressed by Hobson and Foster and Catchings: ideas that have been seen by L. Klein as anticipating Keynesian macro theory.⁶

Tugwell, however, went further than Keynes was to go in the role he gave to the state. Tugwell advocated the use of National Planning and his interest in agriculture took him on a visit to the U.S.S.R.⁷ These ideas and actions led to Tugwell being accused of socialist and totalitarian leanings; criticisms that were combined with others characterising him

3. J. Dorfman, The Economic Mind in American Civilization, 5: 502.

4. R.G. Tugwell, The Brains Trust (New York, 1968); B. Sternsher, op.cit., pp.39-50.

5. R.G. Tugwell, Roosevelt's Revolution (New York, 1977); B. Sternsher, op.cit., pp.170-222.

6. See particularly, R.G. Tugwell, "The Progressive Orthodoxy of Franklin D. Roosevelt," Ethics 64 (1953): 1-23; R.G. Tugwell, "When Corporations Save" in The Battle for Democracy (New York, 1935), pp.187-193; R.G. Tugwell, "The Road to Economic Recovery," Extension Service Review 5 (1934): 33-34, 46; B. Sternsher, op.cit., pp.133-138; R.G. Tugwell, The Democratic Roosevelt (New York, 1957), pp.443-449. L. Klein, The Keynesian Revolution (London, 1950), pp.135-140.

7. See J. Dorfman, The Economic Mind in American Civilization, 5: 764-767; R.G. Tugwell, "Russian Agriculture" in S. Chase, ed., Soviet Russia in the Second Decade (New York, 1928); R.G. Tugwell, The Place of Planning in Society (San Juan, 1954); R.G. Tugwell, "Communism: Reality and Theory," The New Republic 54 (1928): 22-23; R.G. Tugwell, "America's War Time Socialism," The Nation 124 (1927): 364-367; and R.G. Tugwell, "The Principle of Planning and the Institution of Laissez Faire," American Economic Review 22, supp. (1932): 75-92.

as an academic "dreamer" or "utopian" who had no place in government.⁸

I Tugwell on the Scope and Method of Economics.

Tugwell's views on the scope and method of economics stem directly from his evolutionary and instrumentalist philosophy. He insisted on the dynamic and evolving nature of human society, and on the potential role of intelligence in shaping the future course of evolutionary change.⁹ In Tugwell's view the major dynamic force in contemporary American society was the rapid growth of industrial technique and productivity, and this gave economics the central part to play in the direction of social change.¹⁰

Orthodox economic theory Tugwell characterised as quite unsuited to the task of social control. He argued this on the grounds that orthodox theory was based on a theory of human nature too simplistic to be useful in predicting behaviour, and that it ignored the possibility of consciously altering economic and social conditions.¹¹ Tugwell claimed that orthodox theory amounted to little more than a "logical exercise," divorced from actualities; a "dialectical dilettanteism" infused with "metaphysical unreality." He also felt that orthodox theory was frequently used in a normatively biased fashion.¹²

Tugwell's own position relied heavily on the pragmatism and

8. B. Sternsher, op.cit., pp.337-369.

9. R.G. Tugwell, "Experimental Economics," in The Trend of Economics, pp.371-394.

10. Ibid., pp.388-394.

11. Ibid., pp.390-393.

12. Ibid., p.393. For some criticism of Tugwell's views of orthodoxy, see A.A. Young, "The Trend of Economics as Seen by Some American Economists," op.cit., pp.169-170.

instrumentalism of John Dewey. He argued that economics should rely less on principles and more on consequences, concern itself with the facts of American life, take account of the complex nature of human behaviour and motivation, be directed toward the goal of greater welfare, and recognise its ethical nature. Such an economics Tugwell called experimental economics, and experimental economics was "scientific." Although Tugwell regarded social science, because of its concern with human desires and ideas, as being in some ways different from natural science,¹³ experimentalism was his single criterion for the demarcation of science. Thus:

The whole conception of science then...is experimentation. Scientists have learned to distrust premises and to depend upon consequences. And in social science this is bound to involve social facts as they are to be observed in a going society. These facts are the consequences. Theory must have reference to them if it is to be useful.¹⁴

This distrust of the established premises and principles of economics was stressed even more when Tugwell argued that:

The truth is, of course,...that social science has as yet no useful principles of its own... Those are very few who are willing to admit that their subject is still at the trial and error stage when experiment, however difficult and blind, is everything and principles are nothing. Social science is a science, indeed, only in the sense that there is an attempt afoot to establish some uniformities and relations in the field of social knowledge, not at all in the sense that it has premises, procedures, or accumulations of data with which it can proceed with any confidence in the attainment of results.¹⁵

13. R.G. Tugwell, "Economics as the Science of Experience," Journal of Philosophy 25 (1928): 31.

14. R.G. Tugwell, "Experimental Economics," op.cit., p.395.

15. R.G. Tugwell, "Economics as the Science of Experience," op.cit., p.34.

This "experimental" attitude also comes from the idea that the evolutionary nature of society makes the premises and principles of orthodox economics less than useful as "nothing can be taken as absolute any more," with the result that "we have ceased to look for ultimates and turned to the search for expedients."¹⁶ Due to the fact that economics had not yet developed any usable principles, economists must turn to experimentation and research into actual economic conditions.

Tugwell, however, did not rule out the use of deductive methods, but was concerned that deductive theorising take place on a firmer factual foundation, and that it be directed to the end of improving welfare.¹⁷ Deduction, for Tugwell, had the role of pointing out "new and possible ways of progress" while "induction" and "experiment" were to assess the worth of such proposals.¹⁸ Tugwell saw the general uses of "induction" in economics as (1) to assist in laying down probable trends; (2) to assist in gauging probable results of departure from present practice; (3) to assess the gains or losses to be made from new methods or new programmes; and the costs or gains of past and future uses of old methods; (4) to furnish the material for constructive proposals for betterment; and (5) to test the actual results of proposed programmes as they come into use so they may be consciously extended or restricted as they develop

16. R.G. Tugwell, "Experimental Economics," op.cit., pp.394-395.

17. Ibid., pp.398-403. See also R.G. Tugwell, "Economic Theory and Practice--Discussion," American Economic Review 13, supp. (1923): 107-109. Here Tugwell equates "theory" with "thinking about ways in which our institutions can be made to work better."

18. R.G. Tugwell, "Experimental Economics," op.cit., p.400.

well or ill.¹⁹ Any empirical work is "induction."

Induction and deduction therefore appear to have a joint role in Tugwell's scheme, and his hope was that as "the methods of induction become clearer and as the results appear in more understandable form" the deductivist would be able to "project his reconstructive dreams without being altogether subject to the old danger of the theorist--that he may be projecting a future that has no possibility of eventuation or that would actually not be desirable in view of its detailed nature and results."²⁰

Much of Tugwell's hope for the future, and many of his criticisms of orthodox theory and contemporary American institutions, came from his view of human nature. Tugwell argued that economics must be based on some notion of human nature, but that the foundation given by hedonism or by theories of rational choice were quite inadequate.²¹ Tugwell felt that a more modern psychology was required in order to understand fully what motivational forces would be effective, and the full range of human goals, needs, and ideals.

In his search for a suitable psychological basis Tugwell, following Veblen, began with a theory of "elemental tendencies" or "instincts."²² These instincts gave the ends or "general directions" of human conduct.²³ Reason certainly played a part

19. Ibid., pp.409-410.

20. Ibid., p.402.

21. Ibid., pp.407-408; R.G. Tugwell, "Human Nature in Economic Theory," Journal of Political Economy 30 (1922): 317-345; R.G. Tugwell, "Human Nature and Social Economy I and II," Journal of Philosophy 27 (1930): 449-457, 477-492.

22. R.G. Tugwell, "Human Nature in Economic Theory," op.cit., pp.317-318, 378.

23. Ibid., p.328.

in this theory, but reason or "reflection" was not the "originator of conduct;" only "an adjustor" or "modifier" of conduct which allowed for the repression of certain "undesirable modes of action" and cleared "the way for acceptable responses."²⁴ Tugwell did not attempt to closely specify these elemental tendencies or instincts, although, at times, he suggested men were "predominantly co-operative." In one article Tugwell came very close to a Veblenian instinct of workmanship, and, like Veblen, blamed a kind of maladjustment or culture lag, inappropriate institutions, for its submersion.²⁵ The major point of difference between Tugwell and Veblen was the larger role Tugwell gave to human knowledge and intelligence in restructuring institutions in an appropriate manner. Tugwell's thought has less of the deterministic flavour to be found in some of Veblen's work, and, despite the fact that they both saw technology and industrialism as the major dynamic force in society, Tugwell's pragmatism and instrumentalism contrasts strongly with Veblen's position.

Tugwell always looked to further psychological research, particularly behaviourism, to eventually clarify the difficulties surrounding the specification of human nature, but Tugwell was not always very clear about what he meant by "behaviourism." In his early articles his theory of instincts existed side by side with his advocacy of behaviourism,²⁶ but in a later article

24. Ibid., pp.318-319.

25. See R.G. Tugwell, "The Distortion of Economic Incentive," International Journal of Ethics 34 (1923/24): 272-282. See also R.G. Tugwell, "Government in a Changing World," Review of Reviews 88 (1933): 56.

26. R.G. Tugwell, "Human Nature and Economic Theory," op.cit., pp.330-339.

he used behaviourism as a basis for the criticism of instinct theory.²⁷ Tugwell attacked the tendency of instinct theorists to blame "maladjustments" on the difficulty of expressing certain instincts in modern society on the basis that the causes of "maladjustment" may be much more complex.²⁸ He now argued that it

is a dangerous assumption that our environment is growing less suited to our natures...The pressures and stresses of tribal life in the wilds may have been worse than those of city life in Springfield. We may have been growing toward a better rather than a worse situation for the individual. At any rate we must suspect the simple formula, avoid its generalization, and consider men as they behave in their various dilemmas unless we are to run the danger of possible misinterpretation and misreading of the evidence.²⁹

Tugwell also linked behaviourism to the experimental attitude in economics in the following manner:

The attitude of the experimental economist toward human nature can, without too great violence, be called "behaviorist" in this special sense of suspecting formulae and of requiring knowledge not of what men are, but of what they do.³⁰

The orthodox stress on "rationality" Tugwell found to be little more than a reliance on "acquisitivism" as the prime directive force in society.³¹ Tugwell obviously found it hard to believe that a reliance on acquisitivism would lead to the promotion of social welfare. The idea that individual self-

27. R.G. Tugwell, "Human Nature and Social Economy, II," op.cit., pp.477-492.

28. Ibid., pp.479-481.

29. Ibid., p.481.

30. Ibid., p.481.

31. R.G. Tugwell, "Human Nature in Economic Theory," op.cit., pp.336-337.

interest would lead to social benefit was for Tugwell a "mystic paradox" that "would not deserve serious consideration" if it were not held so tenaciously by orthodox theorists.³² Tugwell found no reason to believe that reliance on acquisitivism would lead to social benefit, nor did he believe that acquisitivism was the only source of human motivation. Such reliance on acquisitivism

...only becomes rational when it is approached with the preconceptions of orthodoxy--in other words with the notion that this sort of conduct is right. If one feels these to be mistaken motives, then the conduct inspired by them, assuming them for the moment to be effective as motives, is not rational but irrational in the sense that it will not promote the greatest good.³³

From this Tugwell argues that "behaviorism"

...is very disturbing to laissez-faire believers precisely because it calls into question what is meant by saying that man pursues his own gain and how it is that he accomplishes in this way the social good he is credited with...Consideration of the fact that the directive emphasis in our industrial system is a worse than useless--even positively pernicious--one leads directly to the whole problem of industrial ideals which we see economists are after all under obligation to understand.³⁴

In other words, economists must set up some criteria with which to judge the operation of the system and design institutions in a way that provides individuals with motivations that will bring the system closer to the ideal. For Tugwell, these "industrial ideals" included "progress, prosperity, and intel-

32. R.G. Tugwell, "Experimental Economics," op.cit., p.408. See also R.G. Tugwell, "The Principle of Planning and the Institution of Laissez-Faire," op.cit., pp.78-82.

33. R.G. Tugwell, "Human Nature in Economic Theory," op.cit., pp.337-338.

34. Ibid., pp.339-341.

lignent direction" or "progressive movement to easier circumstances."³⁵ Tugwell explained his trilogy of progress, prosperity, and intelligent direction as follows:

...progress, because we must obviously move beyond the present stage in order to arrive at the welfare phase; prosperity, because it forms the minimum basis upon which to build; and intelligent direction because if the complex system remains unguided or guided only by the intermittent acquisition of its individuals, happy adjustments will come but seldom and by the merest chance, and in all likelihood the future of such a regime would hold little but intolerable intensification of the present pressures of civilisation.³⁶

In this manner Tugwell defined actions that contribute to "welfare" and while he was clearly aware of the ethical nature of his criteria he did not regard this as a source of weakness but rather as a strength.³⁷ He argued that given our uncertainty about human motives and therefore about the required incentives,

...the most we can do is put our best ethical foot forward and say what institutions, in the light of our present knowledge of human nature, we should like to see develop around mankind.³⁸

Industry in Tugwell's view is a "social instrument" which "if freely experimented with, and if directed to the uses of men, holds definite promise for the future."³⁹ The idealistic, even utopian, nature of his thinking is clearly evident, and

35. Ibid., p.342. See also R.G. Tugwell, "Experimental Economics," op.cit., pp.414-420; and R.G. Tugwell, "Human Nature and Social Economy," op.cit., p.490.

36. R.G. Tugwell, "Human Nature in Economic Theory," op.cit., p.347.

37. R.G. Tugwell, "Experimental Economics," op.cit., pp.414-420.

38. R.G. Tugwell, "Economics and Ethics," Journal of Philosophy 21 (1924): 688.

39. R.G. Tugwell, "Experimental Economics," op.cit., p.422.

with it the close connection between him and the optimism of his teacher, S.N. Patten. Nowhere is this more clearly expressed than in Tugwell's argument that:

Industry can lay the basis for any higher life; and no higher life can be built without an industrial basis. It can free mankind for whatever life seems to men good. It remains only to be said that an experimental economics is the condition of this freedom.⁴⁰

II The Causes of Industrial Progress.

In Tugwell's view the arrival and advance of industrial technique was the single most important fact in contemporary economic society,⁴¹ and yet what was happening to industry "on its technological side" had "almost completely escaped the notice"⁴² of economists. Tugwell attempted to forward the idea that economists must recognise the significance of these industrial advances and adapt their doctrines to meet new circumstances. Tugwell set out his plan of action as follows:

At once the most easily measureable and the most favorable result of changing technique can now be seen to be an immense gain in the power to produce goods, to raise the levels of living--a power thwarted by misunderstanding and lack of intelligent direction, but still yielding startling evidence of advance. To understand how this achievement can be furthered rather than hampered, it is first of all necessary to investigate its causes...Afterward we shall return to the problem of discipline, of creating from adolescence...a normal and healthy maturity.⁴³

Much of Tugwell's early work on the growth of productivity relied heavily on the work of Ewan Clauge at the Bureau of Labor

40. Ibid., p.422.

41. R.G. Tugwell, Industry's Coming of Age (New York, 1927), pp.v-viii.

42. Ibid., pp.vii-viii.

43. Ibid., p.viii.

Statistics.⁴⁴ Clauge was a pupil of J.R. Commons' at Wisconsin and selected by Commons for the job.⁴⁵ Tugwell essentially agreed with Clauge that what was occurring in America in the 1920's was "a new industrial revolution which may far exceed in economic importance that older industrial revolution ushered in by a series of mechanical inventions which occurred in England in the last quarter of the eighteenth century."⁴⁶

On the causes of increasing productivity Tugwell did not single out any single major factor but considered an extremely wide range of contributing elements. Efficiency and high productivity were, in Tugwell's mind, not simply a matter of new inventions and new machines but also of new forms of organisation; in other words of "technique" rather than merely of "technology."⁴⁷

Tugwell divided the causes of increased productivity into two types, the "general," and the "specific" or "technical."⁴⁸ The general causes may be placed in several broad groups. First there was the improvement in education and the increase in technical knowledge and research. In the second group were the growth of more efficient methods of production due to greater division of labour, increased mechanisation, and larger scale. Third, there was the growth of the labour force due to population growth and the larger participation of women, and the movement

44. Ibid., pp.1-28. See also E. Clauge, The Bureau of Labor Statistics (New York, 1968), pp.vii-xi.

45. Ewan Clauge, op.cit., pp.vii-viii; and personal conversation with Ewan Clauge, June 8th, 1977.

46. R.G. Tugwell, quotation contained in Industry's Coming of Age, p.2.

47. Ibid., p.26.

48. Ibid., pp.62-63.

of labour into more productive employments. Fourth, came the progress that had been made, however slight, in the controlling of business cycles. Finally there was the improvement in standards of living resulting in "greater health, larger usefulness, and increased energy."⁴⁹

Under the "technical" heading Tugwell included the use of (1) "scientific management and the elimination of rule of thumb," (2) the increase in "directed industrial research and controlled invention" which Tugwell saw partly as a result of increasing university and government commitment to research,⁵⁰ (3) the gradual standardization of "many basic materials and processes," (4) the development of "continuous process assembly" methods, (5) the improvements in "location, layout, and routing practice," (6) the "general development of the idea of planning ahead," or in Galbraith's terms "corporate planning,"⁵¹ (7) the greater use of experts and specialists and the resulting freedom of the executive to concern himself with the larger problems, (8) the use of better accounting methods and methods of financial control, (9) large scale operation resulting in high volume output and low per-unit costs, (10) the reduction of inventory burdens through quicker turnover, simplified marketing and improved transportation, (11) the reduction in "trade ignorance and secrecy" resulting in a "more rapid spread of improved practices, machines, and processes," (12) the use of salvage operations and the reduction of waste in industry, (13) better

49. Ibid., pp.65-119.

50. Ibid., pp.120-132.

51. Ibid., pp.132-144.

organisation in exchange markets, (14) the improvements in the financial system with the inauguration of the Federal Reserve Bank system, (15) the growth of electrification, (16) the "American readiness to scrap obsolete plant and equipment," (17) the coming of personnel management, and (18) the tendency for unions to organise or reorganise on an industrial rather than a craft basis. Tugwell also, on occasion, argued that pressure for high wages, brought about by unionisation, and the high overheads of capital intensive industry would lead towards high volume production and increased efficiency.⁵²

While the outlook was one of a movement toward high volume low cost production which would vastly increase the standard of living for most people, the picture was not an entirely happy one. In the midst of this industrial advance many social and economic problems remained to be overcome, and there were a number of "regressive forces" which occasionally got the upper hand and interrupted the general movement.⁵³ These problems Tugwell saw as the result of the contemporary institutional framework, and he argued that:

...plenty remains to be done in a number of directions before our progress can be consolidated into a permanent new level of productivity insured by sound organisation.⁵⁴

III The Shortcomings of the Contemporary Order.

Tugwell's work on the contemporary economic order dealt with

52. Ibid., pp.144-203. Some of Tugwell's headings have been consolidated in the listing given above. See also R.G. Tugwell, "Wage Pressure and Efficiency," New Republic 55 (1928): 196-198.

53. Ibid., p.26.

54. Ibid., p.28.

a large number of problem areas, but he showed a particular concern with consumption habits, monopoly, income distribution, depressions and unemployment, and the agricultural industry.

Consumption.

In Tugwell's work on this subject he took a great deal from the work of other writers. We can find him, like Veblen, complaining about the lack of social approval for productive efforts and the great amount of approval given to the appearance of high expenditures. The search for approval in contemporary America had become, in Tugwell's view, a "force which drives us to social sabotage, to spendthrift living, to putting up a front, to being 'tin horn sports,' to making shabby goods."⁵⁵ This tendency to "competitive consumption" led to productive resources being utilised to produce luxury items for which there was a demand rather than to produce more basic commodities for which there was still a great need.⁵⁶ Tugwell also utilised Mitchell's ideas in expressing concern with the relative lack of knowledge and training among housewives, and shared the common institutionalist idea of choices being guided by habit rather than by "rational" criteria--the latter, for Tugwell, meant linking consumption choices closely to considerations of productive efficiency.⁵⁷ Advertising, too, was criticised both for its "propagandist" nature and because the expense of advertising was "largely a waste." Advertising, in

55. R.G. Tugwell, "The Distortion of Economic Incentive," op.cit., p.278.

56. Ibid., p.279; and R.G. Tugwell, et al., American Economic Life, pp.449-492.

57. R.G. Tugwell, et al., American Economic Life, pp.488-490. This idea demonstrates a similarity to Patten's notions concerning the proper basis for consumption choices.

Tugwell's view, should be directed at disseminating accurate information which would help to "make choice habits flexible."⁵⁸

Monopoly and Combination.

Throughout his work Tugwell was an advocate of greater public control of industry and the replacement of competition by cooperation. In his early work Tugwell was principally concerned with various aspects of the problem of monopoly and the "tendency to combination."⁵⁹

Tugwell saw two reasons for combination; firstly, economies of scale, and secondly, the desire among businessmen to control price and avoid price competition. While Tugwell realised that economies of scale may bring lower costs and lower prices his attitude was that:

In the pursuit of these economies a partial control of supply may give the business an incidental power over price. There is nothing to prevent the combination which gained its power legitimately enough in the lowering of production expense per unit, from using it for another purpose--the restriction of supplies and the control of price.⁶⁰

For Tugwell there was an essential conflict of interest between the businessman and the consumer. The interests of the consumers consisted of "the cheapest and widest dissemination of goods," while the interests of businessmen consisted of the largest net return.⁶¹ With the existence of combinations the

58. Ibid., pp.488-491. See also R.G. Tugwell and H.C. Hill, Our Economic Society and its Problems, pp.431-458.

59. See particularly R.G. Tugwell, The Economic Basis of Public Interest (Wisconsin, 1922); and R.G. Tugwell, "The Economic Basis for Business Regulation," American Economic Review 11 (1921): 643-658.

60. R.G. Tugwell, "The Economic Basis for Business Regulation," op.cit., p.648.

61. Ibid., p.647.

businessman's interest led him to restrict supply and maintain prices, behaviour directly opposed to the interests of consumers. Tugwell argued that such a conflict of interest was not confined to cases where there was a "single handed control over the total supply," but extended to other forms of imperfect competition such as price leadership, collusion, or tacit agreement among firms.⁶² Tugwell felt that such "sabotage" could take place on both sides of industry, and would not be eliminated until gains could no longer be made by "rigging the market or withholding product or effort."⁶³

A related concern was that inspired by Berle and Means' The Modern Corporation and Private Property; that large corporations are controlled by management who possess no important stockholdings in the company.⁶⁴ For Tugwell the consequences of this development were not exactly the same as those outlined by Berle and Means. Like Berle and Means, he allowed that the division between management and ownership may lead to an "inside group" manipulating the corporation for its own benefit;⁶⁵ an analysis that has some similarities with a section of Veblen's Business Enterprise, except that Veblen was far from clear whether those who were manipulating the corporation were the owners or not.⁶⁶

On the other hand, Tugwell argued that even if the owners'

62. Ibid., pp.651-652.

63. R.G. Tugwell, et al., American Economic Life, pp.246-251.

64. R.G. Tugwell and H.C. Hill, Our Economic Society and Its Problems, pp.249-266.

65. Ibid., p.265; see A.A. Berle and G. Means, The Modern Corporation and Private Property (New York, 1932), pp.119-125.

66. T. Veblen, Business Enterprise, pp.156-176.

and managers' interests were identical there may still be "serious consequences" in that

So long as dividends are paid, most shareholders do not concern themselves with the ways by which the profits are obtained. They are absentee owners. Their attitude often causes directors and managers to adopt policies of doubtful morality in order to retain their positions.⁶⁷

This argument, it should be noted, is much closer to the Veblenian idea of corporate behaviour than anything suggested by Berle and Means.

Income Distribution.

Much of Tugwell's work on income distribution was concerned with the problem of the concentration of income, and with rural and urban poverty. On rural poverty Tugwell was deeply interested in the lot of the casual worker.⁶⁸ But Tugwell's interest did not stop there and also embraced the share cropper and the small farm proprietor who became overly burdened with debt.⁶⁹

For Tugwell:

Through debt, privation, and discouragement... poverty becomes a cumulative evil, one whose burdens grow of their own accord. Destroying, as it does, the very springs of ambition, it makes escape more and more difficult, except through the aid of some outside helping hand.⁷⁰

Tugwell felt urban problems were just as severe; he deplored the ugliness of industrial towns, and the existence of low grade industrial work with no chance of improvement and which was

67. R.G. Tugwell and H.C. Hill, op.cit., p.266.

68. R.G. Tugwell, "The Casual of the Woods," The Survey 44 (1920): 472-474.

69. R.G. Tugwell, et al., American Economic Life, pp.8-36.

70. Ibid., p.36.

"deadening to mental growth and to aspiration."⁷¹ Urban

poverty also created other problems, in that

...poverty remains as a plague centre in our national civilisation. It is the chief source of the criminal and restless disintegrative forces which spread upward to disorganise social living. Their symptoms, in dishonesty, violent crimes, strikes, mob rule, epidemics of disease are a constant reminder that our economic system is still unsound at bottom.⁷²

This concern with poverty and its results was linked to Tugwell's thinking on the distribution of income. For Tugwell income was apportioned "by the position of relative advantage gained by one party or another to price transactions." Control of supply and monopolies of all kinds could be used to increase the income of particular groups, as well as, in some instances, the control of demand by large buyers.⁷³ Tugwell also considered speculation, luck, and successful bargaining as factors affecting the distribution of income. What is more, certain advantages could become institutionalised as in the case of the fixing of "customary prices," or by legislation, or by habit.⁷⁴

Tugwell argued that "superior productivity only yields greater incomes as it affects the market position of the producer." Although he admitted that an increase in productivity would usually result in larger profits in the short run, he maintained that under certain conditions "an unfortunate position in the market" may allow the gains to accrue to some other

71. Ibid., p.39.

72. Ibid., p.64.

73. Ibid., pp.406-411.

74. Ibid., pp.408-410, 414-418.

person or group. In other words, Tugwell's point was that incomes do not reflect productivities so much as market power.⁷⁵

Agriculture.

Tugwell related his theory of distribution to the "problem of agriculture."⁷⁶ It was frequently observed that agricultural prices were subject to wide fluctuation, and that great difficulties faced agriculture in depressions. Tugwell argued that agricultural production was unable to respond quickly to prices, as supply could not be expanded or contracted rapidly. Agricultural production tended to be fairly stable even in periods of considerable price change, but Tugwell put some of the blame for this lack of responsiveness on habit, on the type of land available to the farmer, and on "a dozen considerations before price"⁷⁷ which affected the farmer's decisions.

As well as this lack of responsiveness to price, agriculture suffered from another handicap, namely its individualistic nature,

...which means that farmers on the whole still prefer to bargain separately for the sale of their goods and are, therefore, especially vulnerable in a period of general price change; their bargaining power is low and the burden of change is shifted to their shoulders by their stronger opponents in bargaining...Again and again in the history of industrialised society the farmer has had to meet periods of declining prices unprepared and has been driven to despairing revolts.⁷⁸

Depressions and Unemployment.

This idea that business depressions hit agriculture

75. Ibid., pp.413-414.

76. R.G. Tugwell, "The Problem of Agriculture," Political Science Quarterly 39 (1924): 549-591.

77. Ibid., pp.567-569.

78. Ibid., pp.567, 573.

particularly hard brings up the question of the causes of depressions. The existence of cyclical depressions and the related problems of unemployment and hardship provided, for Tugwell, the "severest criticism of our whole system of socio-industrial planning." In his early work on depressions Tugwell followed Mitchell's treatment, linking the development of cycles with the existence of a money economy, and utilising the four phase description of revival, prosperity, liquidation, and depression, much as Mitchell presented it.⁷⁹

Tugwell, however, began to develop another strand in his thinking which was connected with the possibility that rapid technical change may create unemployment. Tugwell called this type of unemployment "occupational obsolescence."⁸⁰ In his work on this Tugwell appears to combine two distinct ideas. First, the notion of technological unemployment, that of certain skills becoming obsolete, and, second, the problem of maintaining a sufficient total number of jobs in the face of increasing mechanisation.⁸¹ Technological unemployment, for Tugwell, was a waste of the potential capacities of the workers involved, and, due to the structure of common law rights and responsibilities, the costs of technological unemployment were placed almost entirely on the worker. There was little effort being made to help such workers retrain or relocate themselves. Tugwell felt there was a social cost involved that was not being taken

79. R.G. Tugwell, et al., American Economic Life, pp.320-330; see also R.G. Tugwell, Industry's Coming of Age, pp.204-208.

80. R.G. Tugwell, "The Theory of Occupational Obsolescence," Political Science Quarterly 46 (1931): 171-227.

81. Ibid., pp.182-187, 216.

account of by employers, by government, or by the courts.⁸²

On the second point, that of insufficient job creation, the argument was that the growing capital intensity of firms had led to a growth in overhead costs and the risks involved should there be any fall in demand.⁸³ According to Tugwell the corporate reaction to this was to build up liquid reserves and, in order to do this, prices would not be lowered in the face of technical improvement. As prices would not fall, real personal incomes would not increase.⁸⁴ Although Tugwell admitted that the corporate savings would be placed in banks, used to purchase government securities or the securities of other firms, placed on the money market, or used to enlarge the firm's own plant, he argued that the "full flow of funds" would not find its way into the hands of the "ultimate consumers,"⁸⁵ with the result that demand would not expand to the extent required to absorb the increased supply of consumption goods and keep employment up. In Tugwell's opinion, the orthodox theory assumed "a readier translation of corporate incomes into consumer's demand than we should allow."⁸⁶

This argument seems to imply that even if corporate savings are used for capital investment there would still be a problem. That this is the case is made clearer in some later articles which present a theory of depressions significantly different

82. Ibid., pp.192, 216-218.

83. Ibid., pp.182-187.

84. Ibid., pp.198-199; see also R.G. Tugwell, "When Corporations Save," op.cit., pp.187-192.

85. R.G. Tugwell, "When Corporations Save," op.cit., p.188.

86. R.G. Tugwell, "The Theory of Occupational Obsolescence," op.cit., p.183.

from Mitchell's. Tugwell, after 1934, can be found arguing that depressions are the result of a "lack of co-ordination between producing and consuming power."⁸⁷ He argued that in prosperous times savings tend to be used for capital investment, which may over-expand productive capacity relative to consumption. This over-expansion occurred because businessmen, although they undertook planning within their own corporations, could not plan the whole industry. In prosperous times businessmen "tended to assume an unlimited market" with "each making capital commitments out of surplus."⁸⁸ As a result

...industries find themselves periodically with a failing market. When too much is saved and finds its way into factories, warehouses, transport facilities and the like, our productive equipment tends to outgrow any demand there may be for the product. One of the favorite devices resorted to in this situation is an enlargement of high-pressure salesmanship and advertising in an attempt to create markets forcibly. But if physical purchasing power is actually deficient the only result this can have is to take business away from someone else, destroying the momentary equilibrium--the whole cannot be enlarged.⁸⁹

The cause of depressions, then, was the tendency for productive potential to outstrip consumption demand. The business reaction to such a situation, at least in the highly technological and more concentrated sectors where some degree of control over price could be exercised, was not to reduce prices, but to increase sales effort, and, if that failed, to

87. R.G. Tugwell and H.C. Hill, op.cit., pp.314-317; and R.G. Tugwell, "When Corporations Save," op.cit., passim.
 88. R.G. Tugwell, "When Corporations Save," op.cit., p.189; R.G. Tugwell and H.C. Hill, op.cit., pp.314-317.
 89. R.G. Tugwell, "When Corporations Save," op.cit., p.189.

reduce output. On the other hand, in sectors such as agriculture, output remained fairly stable while prices fell rapidly in the face of decreased demand.⁹⁰ These different reactions in different sectors disturbed the "exchangeability" of agricultural for industrial goods, destroying the "balance" between agricultural and industrial prices. Tugwell argued that "if all prices throughout our economy had been as flexible as those in the farm area were, it is quite possible that the 1929 depression would have been of minor consequence."⁹¹

IV Tugwell's Underconsumptionism.

The lines of argument which formed the basis for Tugwell's views on the great depression can be summarised as follows: technological change had led to considerable gains in potential output, but these same changes had also led to inflexible prices in manufacturing industry and to the advent of corporate saving. Productivity gains were not being passed on in the form of lower prices or higher wages but were instead going into savings. Tugwell's argument at this point breaks into two strands, the former suggesting that saving is a problem no matter how the savings are used, as there will be some leakage from the consumption stream; and the latter suggesting that the difficulty is that over saving may lead to over investment and the over expansion of productive capacity relative to consumption. Tugwell's arguments fit perfectly into the characterisation of underconsumptionism given by Harberler,⁹² the only differences

90. R.G. Tugwell, "The Road to Economic Recovery," op.cit., pp.33-34, 46.

91. Ibid., p.33.

92. G. Harberler, Prosperity and Depression, pp.118-124.

being Tugwell's use of the idea of price inflexibility and his total lack of mention of monetary solutions. In Tugwell's work the problem of over-investment could be overcome if prices were flexible and the real incomes of consumers rose, but he argued that prices were inflexible downwards in the manufacturing sectors. Consumption demand remains insufficient and depression results. Prices do fall in the flexible price sectors such as agriculture, but due to the inflexible prices elsewhere the real incomes of farmers also fall.

There is a sense in which Tugwell's work, although phrased in static terms, can be seen as a consideration of the problem of steady growth. Given rapid technological advance there will be increasing output over time. All would be well, in Tugwell's view, if factor payments increased accordingly, or if prices fell, increasing real incomes. Firms, however, do not reduce prices, and do not increase wages. Instead, the fruits of the increased productivity go into corporate savings and are then used to further increase productive potential through new investment. Eventually a point is reached where all outputs cannot be sold at the going price level and so a depression sets in. Tugwell's point was that the consumption of final outputs must grow at a fast enough rate to maintain full employment in the face of technological change. Price rigidity, the idea that income distribution is based on market power not marginal productivities, and the existence of corporate savings are all important elements in his opinion that a correct balance between consumption and productive potential is unlikely to be consistently maintained by unregulated markets.

Tugwell's ideas on depressions were by no means unique;

indeed his work appears almost as an amalgam of the theories produced by H.G. Moulton and others at Brookings, and by F.C. Mills, G. Means, W.T. Foster, W. Catchings, and J.A. Hobson. As Hobson, Foster, and Catchings have been seen as anticipators of Keynes,⁹³ the question of the extent to which Tugwell can be similarly viewed is raised.

The investigations undertaken by the Brookings Institution led them to the conclusion that U.S. industry was capable of producing considerably more than was actually being produced, as there was a lack of effective demand created by the concentrated distribution of income and the high levels of saving undertaken by the wealthy. As with Tugwell the blame was placed on too much saving, and the Brookings study also blamed inflexible prices for the lack of adjustment to full utilisation.⁹⁴ The similarity between these ideas and those of Tugwell is quite clear, but there are some important points of difference. The Brookings study did not place much emphasis on corporate savings and tended to blame the distribution of income for the high level of saving. Also, and more importantly, the Brookings studies were concerned not with the large amounts of savings being invested in plant and equipment, but with the possibility that savings would outstrip investment opportunities, and would

93. L. Klein, The Keynesian Revolution, pp.124-147.

94. See M. Leven, H.G. Moulton, and C. Warbarton, America's Capacity to Consume (Washington, D.C., 1934); E. Nourse, et al., America's Capacity to Produce (Washington, D.C., 1933); and for a concise summary of the Brookings findings see H.G. Moulton, The Trouble with Capitalism is the Capitalists (Pittsburg, 1935). This is a reprint of an article originally published by Fortune 12 (1935): 77-81.

therefore fail altogether to enter the spending stream.⁹⁵ In this manner the Brookings studies were closer to Keynes than Tugwell was, although the Brookings studies failed to analyse the interest rate mechanism and put more weight on the existence of inflexible prices.

Inflexibility of prices also provided the key point in the analyses presented by F.C. Mills and G. Means. Mills, as previously noted, felt that if productivity gains were not passed on to the ultimate consumer in the form of lower prices then purchasing power and sales would not increase sufficiently to keep employment up.⁹⁶ In Means' analysis the role of inflexible prices was to disrupt the mechanisms of market adjustment. With inflexible prices, producers, in the face of falling demand, tended to reduce output rather than price and this created unemployment. Means, like Tugwell, was concerned with the effect of inflexible industrial prices on flexible price sectors such as agriculture, but Means did not share Tugwell's over-saving, over-investment theory, and placed more emphasis on monetary factors as a cause of the initial disturbance.⁹⁷

Tugwell's stress on inflexible prices, then, was a common concern among American economists of the time. Price inflexibility was seen by Tugwell, Mills, Means, and by the economists

95. H.G. Moulton, The Trouble with Capitalism is the Capitalists, pp.12-15.

96. F.C. Mills, Prices in Recession and Recovery (New York, 1936), pp.451-464.

97. G. Means, "Notes on Inflexible Prices," American Economic Review 26, supp. (1936): 23-35; G. Means, Industrial Prices and Their Relative Inflexibility (Doc. No. 13, 74th Congress, 1st Session, Washington, D.C., 1935); G. Means, "Business Combinations and Agriculture," Journal of Farm Economics 20 (1938): 53-57.

at Brookings as perhaps the single most important cause of the economy's failure to adjust once a downturn had started. In this they differed substantially from Keynes⁹⁸ whose emphasis was on the inability of the interest rate to equate savings and investment at the full employment level of income.

Other aspects of Tugwell's work compare most closely to the ideas presented by Hobson and by Foster and Catchings. Like Hobson, Tugwell was concerned with industrial progress and with the idea that saving and consumption must be co-ordinated for that progress to proceed smoothly. Thus, Hobson can be found arguing that:

There exists at the present moment a right proportion between spending and saving...Industrial progress...consists largely in the ascertainment of this proportion and the adjustment of industry to it...The right proportion of saving to spending at any given time depends upon the present condition of the arts of production and consumption and the probabilities of such changes in modes of work or living as shall provide social utility for new forms of capital within the near or calculable future.⁹⁹

The usual view of Hobson's work is that he felt that, in booms, decisions to save "resulted in an equivalent amount of intended investment," and that depressions occurred when "saving (and hence investment) somehow became too great relative to consumption."¹⁰⁰ Hobson's argument has been summarised by

98. For comment on this see G. Means, "Monetary Institutions to Serve the Modern Economy," in Institutional Adjustment, ed., C. Thompson (Austin, 1967), pp.149-177.

99. J.A. Hobson, The Industrial System (London, 1910), p.55; see also A. Hansen, Business Cycles and National Income, pp.254-258.

100. See A.H. Gleason, "Foster and Catchings: A Reappraisal," Journal of Political Economy 67 (1959): 160; A. Hansen, op.cit., pp.255-256.

Gleason as follows:

As saving increased proportionately during the boom, consumption automatically became proportionately less until a critical point was reached at which it would not support at adequate prices the increased volume of goods provided by the growing capacity. Consequently there must be some theoretically best relation between consumption and saving which would result in stability.¹⁰¹

The differences between Hobson and Tugwell stem from the latter's emphasis on corporate saving and price rigidities which do not play a role in Hobson's work. Also, Hobson took his analysis further, describing the procession of events through the depression to eventual recovery.¹⁰² Tugwell's work stops short at the point of the downturn and it is unclear whether Tugwell felt that the economy would remain depressed or would eventually recover. Nonetheless there is a strong similarity between Hobson's and Tugwell's views on the causes of depressions.

Foster and Catchings agreed that there may be a "shortage" of consumer demand due to individual and corporate savings. This shortage of consumer demand due to saving may, however, be "offset" in a number of ways.¹⁰³ Foster and Catchings made a distinction between those offsetting expenditures which do not add to the supply of consumer goods and those that do. The most common offset is investment in plant and machinery which does add to the supply of consumer goods, and this creates a second type of shortage of consumer demand which exists even if savings

101. A.H. Gleason, op.cit., p.160.

102. See D.J. Coppock, "A Reconsideration of Hobson's Theory of Unemployment," Manchester School 21 (1953): 14-19.

103. W.T. Foster and W. Catchings, Profits (Boston, 1925), pp.274-280, 353-361; and A.H. Gleason, op.cit., pp.157-159.

are fully offset by investment. This shortage is due to consumer incomes which "are inadequate to support the purchase of the growing output at prices sufficient to prevent a cyclical decline."¹⁰⁴

The work of Hobson and Foster and Catchings have often been lumped together as an example of underconsumptionist theory.¹⁰⁵ The usual criticism of the pre-Keynesian underconsumptionists is that they concentrated on the relationship between saving and consumption, and thought that over-saving was evidenced by the investment of too much savings instead of the failure to find investment opportunities for all the savings which people desired to create. Certainly Keynes took this view of Hobson's work and criticised Hobson on the basis that he was incorrect in

...supposing that it is a case of excessive saving causing the actual accumulation of capital in excess of what is required, which is, in fact, a secondary evil which only occurs through mistakes of foresight; whereas the primary evil is a propensity to save in conditions of full employment more than the equivalent of capital which is required, thus preventing full employment except when there is a mistake of foresight.¹⁰⁶

More recent work has attempted to dispute this characterisation of Hobson and similar views expressed about Foster and Catchings. Coppock has argued that Hobson was aware that once faced by a failing market businessmen would reduce their investment plans and saving may exceed investment.¹⁰⁷ Coppock uses

104. W.T. Foster and W. Catchings, op.cit., pp.278-80; A.H. Gleason, op.cit., p.158.

105. See G. Harberler, op.cit., p.118.

106. J.M. Keynes, The General Theory (New York, 1964), pp.367-368.

107. D.J. Coppock, op.cit., pp.14-17.

this to argue that Hobson was closer to Keynes than is often allowed,¹⁰⁸ the major difference being that Hobson approached the problem in terms of "the dynamic aspects of growth in a progressive economy."¹⁰⁹ Unfortunately, the argument fails to overcome the fact that Hobson clearly thought that the initial difficulty was caused by over investment.

With Foster and Catchings the position is less clear, and there has been some debate over their work. One recent contribution, however, argues that for Foster and Catchings over-saving was not too much saving relative to consumption but too much saving relative to investment, a position much closer to Keynes.¹¹⁰ Foster and Catchings felt that stability could be achieved with any level of saving provided that "investment fully offsets saving and in addition increases at a sufficient rate to provide, through bank credit expansion, an adequate price level for the growing value of consumer goods produced by new capacity creating facilities."¹¹¹ Gleason has noted that this provides an interesting anticipation of Domar growth theory.^{112.}

It has been pointed out that Hobson and Tugwell approached the problem of unemployment as a problem in steady growth, but it seems clear that both Hobson and Tugwell fell into the error of concentrating on the saving/consumption relationship instead of on the saving/investment relationship. Tugwell's work, with

108. Ibid., p.21.

109. Ibid., p.21.

110. A.H. Gleason, op.cit., pp.160-162.

111. Ibid., p.159.

112. Ibid., pp.162-164.

its emphasis on over-saving relative to consumption and the implication that no matter what the level of investment equilibrium could not be achieved at full employment, is open to the Keynesian criticism of Hobson. Like Hobson, and many other underconsumptionists, Tugwell did not realise that "in spite of a high rate of saving, there is always an equilibrium possible with full employment of the factors of production."¹¹³ Even compared with Hobson and Foster and Catchings, Tugwell's work seems incomplete and unsatisfactory. He never fully extended his analysis and ignored monetary factors and the interest rate mechanism.

Tugwell's work, therefore, can be placed in the pre-Keynesian underconsumptionist tradition, but Tugwell does not appear to have made much advance over the ideas of Hobson. Tugwell was just as vague as Hobson over the determinants of investment and technical advance, and he was less precise than Hobson over the determinants of savings.¹¹⁴ Tugwell's work therefore cannot be seen as a very significant anticipation of Keynes' General Theory. In addition, there were few similarities between Tugwell's and Keynes' policy proposals. Tugwell went further towards planning than Keynes, a prescription that was, at least partially, based on his view that the central problem was the coordination of investment and consumption decisions.

V Tugwell's Policy Proposals.

In his early work Tugwell's policy proposals were aimed

113. G. Harberler, op.cit., p.125.

114. L. Klein, op.cit., p.137.

primarily at the regulation of large scale firms. He argued that such large scale enterprises resulted in damage to the public interest, and that this justified some kind of regulation over their activities.¹¹⁵ Tugwell favoured the use of a regulatory agency which would fix prices by calculating the "necessary or desirable" supply and selecting a price so as to call forth that supply.¹¹⁶ Tugwell admitted that the determination of the "needed supply" involved "difficult social measurement," but argued that prices could be set on the basis of past consumption habits and costs of production.¹¹⁷

Tugwell maintained that price fixing by a commission would be preferable to price fixing by legislation as the latter would be unable to respond quickly to changing production conditions or consumption habits. As for the policy of breaking up monopolies and the anti-trust laws, he argued that the results of the anti-trust laws had shown them to be less than successful, and from Tugwell's earlier arguments it can be surmised that he felt the problem of control over price was not limited to "absolute" monopolies or explicit collusion, and that to break up large concerns would result in a loss of economics of scale.¹¹⁸

The next step in Tugwell's thinking came with the experience of economic regulation undertaken during the First World War. Tugwell argued that during the war "the very nature of the

115. R.G. Tugwell, "The Economic Basis for Business Regulation," *op.cit.*, pp.654-658.

116. *Ibid.*, pp.654-655.

117. *Ibid.*, pp.655-656.

118. *Ibid.*, pp.657-658.

business system was called into question," and between April 1917 and September 1918 "a system of control went into operation which amounted to the abrogation of Laissez-faire."¹¹⁹ That the war-time scheme of control was successful he had no doubt:

Of the arrangements which had actually been perfected at the time of the Armistice, or were in immediate contemplation, the most notable feature was their co-ordinated and co-operative nature...Competition in business, for instance, which is assumed to be the life of our trade, was, for the first time, officially recognised as inefficient and wasteful...It was seen that the physical capacity of an industry to produce goods is different from its capacity to produce profits. For the moment we were agreed that goods were needed--more and more without limit. But to produce them in quantities which would meet the need, it was necessary that no material, no effort, no power, no plant capacity, should be wasted. And the production of too much of this and too little of that had to be stopped.¹²⁰

Tugwell noted that the wartime control did not stop with control over price and output, but extended into the areas of income distribution, wage bargaining, and consumption. In economic terms, the war, for Tugwell, was a release from the "self imposed fetters" of a system of competitive enterprise and individual interest. Efficiency grew from the cooperation among industries while the public interest was assured by government regulation of price.¹²¹

So far Tugwell's policy proposals can be seen as based on

119. R.G. Tugwell, "The Paradox of Peace," New Republic 54 (1928): 263. See also R.G. Tugwell, "America's War-Time Socialism," op.cit., pp.364-367.

120. R.G. Tugwell, "The Paradox of Peace," op.cit., p.263.

121. R.G. Tugwell, "America's War-Time Socialism," op.cit., pp.364-366; R.G. Tugwell, "The Paradox of Peace," op.cit., pp.263-264.

the idea of the distinction between making goods and making money, and it is clear that Tugwell regarded this distinction as a basic flaw in the competitive system. It was not, however, the only flaw, and after 1932 Tugwell expanded his arguments to include his views on the existence of corporate surpluses, and the lack of co-ordination between investment and consumption plans.¹²²

The unregulated market system, then, could lead, on the one hand, to the restriction of output in order to gain monopoly profits, and on the other hand, to faulty and wasteful investment. These two major flaws in the system led to the level of economic activity being considerably below the level of potential output. Tugwell also felt that the growth in the complexity and productivity of industry had resulted in the decentralised market system becoming outmoded. For Tugwell, in order to realise the full potential of the industrial system the institutions which guided economic activity should be modified and a system of national planning installed.

In Tugwell's mind, then, there was a pressing and immediate need for a system of national planning; and he went to considerable lengths to argue that national planning was properly within the powers of government and was quite constitutional,¹²³ and in The Industrial Discipline and the Governmental Arts he set out a scheme for the planned administration of industry.

122. R.G. Tugwell, "The Principle of Planning and the Institution of Laissez-faire," op.cit., pp.75-92.

123. R.G. Tugwell, "The Principle of Planning and the Institution of Laissez-faire," op.cit., p.76.

This consisted of planning boards for each industry which would be concerned with "maintaining standards of competition" and setting "maximum prices and minimum wages." There would also be a central organisation which would act as a "mediating and integrating body for the co-ordination of the several industries' plans and policies respecting production, prices, division of markets, working conditions and the like." This central board would consist of representatives from the individual industry boards and representatives from government.¹²⁴

Above the central board would be a "controlling body," a government agency which would have powers to investigate and review the industry policies. Tugwell also saw this controlling body imposing arrangements for patent pooling and the "conservation of efficiency," as well as exercising discipline over the industrial planning boards or particular industrial concerns. The controlling body would transmit to the central board the "general plans for industry" worked out by the government itself. These general plans would concern "consumption, production, the allocation of capital, and prices." The central board would then have to reconcile the plans of the various industries with the independent one transmitted by the government through its representatives on the board. Tugwell also argued that there would be a need for a public advocate, particularly in the areas of price regulation and allocation of capital, but he was not specific as to how this public

124. R.G. Tugwell, The Industrial Discipline and the Governmental Arts (New York, 1933), pp.212-216.

representation should be fitted in.¹²⁵

Tugwell felt that opposition to the extension of government power was based on the view that government was corrupt and inefficient, and he attempted to refute that view by claiming that government shortcomings were due to the corruption of government by business; an argument that was closely linked to his view concerning the essentially co-operative nature of humanity, and the undesirable effects of the competitive system's reliance on the motives of acquisition.

From what I know of human nature I believe that the world awaits a great outpouring of energy so soon as we shall have removed the dead hand of competitive enterprise that stifles public impulses and finds use for only the less effective and less beneficial impulses of men. When industry is government and government is industry, the dual conflict deepest in our modern institutions will be abated.¹²⁶

Frank Knight subjected Tugwell's view to considerable criticism and pointed out that:

If new economic oratory convinces the world, as well it may, that to "abolish" business is all that is needed to purify government and make it a fit instrument of a millennial human society, it will indeed initiate an experiment--of the general character of ascertaining whether a certain material is food or poison by substituting it for one's previous diet until the issue is determined.¹²⁷

In a later article, Tugwell did draw back a little from his more optimistic view, and came to doubt that any of the

125. Ibid., pp.212-216.

126. R.G. Tugwell, "The Principle of Planning and the Institution of Laissez-faire," op.cit., pp.85-86, n.20.

127. F. Knight, "The New Economics and the Control of Economic Activity," Journal of Political Economy 40 (1932): 476.

existing branches of government could properly "discharge the responsibility of planning in the public interest." This, of course, did not mean that Tugwell felt that such governmental responsibility could not be achieved, only that a new branch of government would have to be created to oversee the planning process. This new branch of government Tugwell called the "Fourth Power" or the "Directive" branch of government.¹²⁸

This directive branch would be independent of the existing branches of the executive, legislative, and judiciary, and would be staffed by experts chosen on the basis of qualifications and who would be given relatively long terms of appointment. Tugwell, however, wished that the directive branch be democratic and he saw it as concerned only with the technical means of carrying out the aims that the public indicated it desired. The public would be able to express opinions in two ways, first, directly through a provision for public debate on all proposals, and, second, indirectly through the legislature who would have to approve and pass into law the proposals of the directive branch.¹²⁹

Planning should be democratic but at the same time the planning board would have to be more than a merely advisory body. Planning had to include all industries and involve itself with the control of prices, profit margins, the allocation of capital, and the adjustment of agriculture and industry. It

128. R.G. Tugwell, "The Fourth Power," Planning and Civic Comment, April/June 1939, part II, pp.2-30. See also A. Gruchy, Modern Economic Thought, pp.437-439; and B. Sternsher, op.cit., pp.102-104.

129. R.G. Tugwell, "The Fourth Power," op.cit., p.30.

should also be concerned with setting minimum wages, providing a social security system, and the planning of consumption. Tugwell saw planning extending to slum clearance, urban renewal, and the renovation of rural life, and he advocated the setting up of planned communities or greenbelt towns.¹³⁰ Planning should also extend to international trade, as Tugwell saw the idea of free trade as simply an extension of the theory of laissez-faire. He advocated the setting up of import and export boards and the international co-ordination of trade.¹³¹

For Tugwell everything was possible under a planned and co-ordinated economy which released the co-operative impulses of men and the full productive powers of the economy from the restrictive bonds of an institutional order based on competition and self-interest.

Tugwell's views on planning deeply influenced his ideas on how to deal with the Great Depression, and as Tugwell was heavily involved in the Roosevelt administration his ideas had some influence on policy.¹³² Tugwell wished to use the emergency of the depression and the need for governmental action as a way of implementing institutional changes. Tugwell was therefore interested in promoting both recovery and industrial reorganisation, although the pressing need for the former did result in

130. R.G. Tugwell, "The Principle of Planning and the Institution of Laissez-faire," op.cit., pp.88-90; R.G. Tugwell, "The Meaning of the Greenbelt Towns," New Republic 90 (1937): 42-43.

131. R.G. Tugwell, "The New Course of International Trade," in International Problems of Agriculture, 12th Meeting, General Assembly, International Institute of Agriculture (Rome, 1935).

132. There is no intention here of dealing with Tugwell's role in the New Deal in detail, as this would involve more space than is available and would also duplicate research undertaken by B. Sternsher in his Rexford Guy Tugwell and the New Deal, and by

his occasionally recommending policies not in total harmony with his longer run views.¹³³

Tugwell was perhaps most heavily involved with Agricultural Adjustment Administration, and while Tugwell wished to see the development of a long term plan of land use designed to retire submarginal land from cultivation, promote land conservation, adjust agriculture to the needs of the population, and restore the balance between agricultural and industrial prices, he was willing to support the early crop reduction programmes as an expedient which would raise farm incomes and purchasing power.¹³⁴

Planning for agriculture, when it developed a comprehensible shape during New Deal days, consisted largely of showing how and on what terms reciprocal relations with other great functioning divisions of the social economy might be established--notably industry. This was inevitable in so great an emergency as then existed. This parity was identified as the relationship which had existed at a time (1909-14) when agriculture had at least not been depressed.¹³⁵

Later in the New Deal with the second Agricultural Adjustment Act the idea of conservation was introduced, and other ideas were developed such as the ever normal granary.¹³⁶ The difficulty was that after this point had been reached the

R.S. Kirkendall in his doctoral thesis "The New Deal Professors and the Politics of Agriculture" (University of Wisconsin, 1958).

133. B. Sternsher, op.cit., pp.106-107; and also R.G. Tugwell, "A Planner's View of Agriculture's Future," Journal of Farm Economics 31 (1949): 39-40.

134. B. Sternsher, op.cit., pp.107, 170-188; R.G. Tugwell, "A Planner's View of Agriculture's Future," op.cit., R.G. Tugwell, "A Plank on Agriculture," New Republic 55 (1928): 161-162 (unsigned).

135. R.G. Tugwell, "A Planner's View of Agriculture's Future," op.cit., p.43.

136. Ibid., p.43; B. Sternsher, op.cit., pp.262-278.

"accumulated agreement" between the various farm groups was used up. What was more, lobbyists began to pressure for more protection, and "redefine parity--upwards, of course."¹³⁷

During his time at the Department of Agriculture Tugwell also played a leading role in the formation of a new Food and Drug Act. Here again we see Tugwell's concern with the consumer interest. He recommended that the regulations concerning advertising, labelling, the contents of medical products, and the like should all be tightened up. These proposals brought an avalanche of criticism down on Tugwell, which was to grow to such an extent as to eventually impair his ability to operate and make him a liability to the Roosevelt administration. Tugwell resigned from office in 1936, while no new food and drug act passed until 1938.¹³⁸

Tugwell was not only involved with the Department of Agriculture and the AAA, but was also involved in the National Recovery Administration. Here, too, there was a difficulty. One group, the planners, wanted recovery combined with movement towards a system of planning, others, more in the tradition of American liberal progressivism, wished to see recovery combined with regulation of industry abuses, but also with the attempt to maintain competitive conditions.¹³⁹ Tugwell, of course, was

137. R.G. Tugwell, "A Planner's View of Agriculture's Future," op.cit., p.43; see also R.G. Tugwell, The Stricken Land (New York, 1947), p.24.

138. B. Sternsher, op.cit., pp.223-250; R.G. Tugwell, Roosevelt's Revolution, pp.227-229, 288-289.

139. B. Sternsher, op.cit., pp.109-121; R.G. Tugwell, Roosevelt's Revolution, pp.78-82; E.W. Hawley, The New Deal and the Problem of Monopoly (Princeton, 1966), pp.35-52.

a planner and the NRA was an expression of the planner's ideals, although it must be noted that while there was agreement in the planning group over the need for planning and co-ordination, there was considerable disagreement over the respective roles that government and business should play. The National Recovery Act never specified exactly "who would do the planning, how much of it would be done, and for whose benefit." Over these issues developed "one of the major controversies that split the NRA administration into rival groups."¹⁴⁰

The NRA sought to control prices and levels of output, to promote efficiency by allowing concentration, and to regulate industrial practices over wages, hours of work and many other areas, by setting up codes of behaviour. It was Tugwell's hope that the NRA be organised along the lines he had set out in The Industrial Discipline and the Governmental Arts and that it should be both an instrument of industrial reorganisation and an instrument of recovery.¹⁴¹ In all of these hopes Tugwell was to be disappointed.

After 1935 the direction of the New Deal moved toward piecemeal regulation and away from the idea of planning.¹⁴² Tugwell saw this shift as the result of business pressure and the underlying "progressive orthodoxy" of Roosevelt.¹⁴³ Once

140. E.W. Hawley, op.cit., p.45.

141. B. Sternsher, op.cit., pp.154-160; R.G. Tugwell, The Democratic Roosevelt, pp.282-326. See also E.W. Hawley, op.cit., pp.130-146; R.G. Tugwell, "The New Deal: the Progressive Tradition," Western Political Quarterly 3 (1950): 403-409; A. Schlesinger, The Coming of the New Deal (Boston, 1959), pp.173-176.

142. B. Sternsher, op.cit., pp.122-141; R.G. Tugwell, The Democratic Roosevelt, p.465.

143. R.G. Tugwell, "The Progressive Orthodoxy of Franklin D. Roosevelt," op.cit., pp.1-23.

Tugwell realised that a collectivist plan was not to be implemented he shifted to advocating a policy of deficit spending, but it is important to realise that Tugwell did not believe deficit spending to be capable of solving the underlying problems of the economy and thought that it would also create inflation. Nevertheless, if the alternative was stagnation, Tugwell was willing to support deficit spending as a temporary policy designed to increase purchasing power.¹⁴⁴

The nature of Tugwell's conversion to deficit spending can be illustrated by the fact that in 1932 he argued for a balanced budget, with public works programmes being financed by increased taxation on high incomes and inheritances. In 1933 he argued that the government might run a deficit, but that the current account should be kept in balance.¹⁴⁵ While Tugwell subsequently criticised Roosevelt for clinging to the idea of a balanced budget,¹⁴⁶ his own conversion was far from rapid or complete. Tugwell continued to believe that with a properly co-ordinated and planned economy such devices would be unnecessary.¹⁴⁷

For Tugwell the New Deal, for all its failures, was a first step. It resulted in the beginnings of a social security system and did something to improve the positions of agriculture

144. B. Sternsher, op.cit., pp.107-108; R.G. Tugwell, "The Fourth Power," op.cit., pp.4-12.

145. See J. Dorfman, The Economic Mind in American Civilization, 5: 765-767.

146. See R.G. Tugwell, "The New Deal in Retrospect," Western Political Quarterly 1 (1948): 373-385; R.G. Tugwell, Roosevelt's Revolution, p.42.

147. R.G. Tugwell, "The Fourth Power," op.cit., pp.4-12.

and labour relative to business.¹⁴⁸ On the other hand, the NRA as an experiment in planning was not a success, the power of the business community and of economic orthodoxy was too great. As Hawley has put it:

Under the circumstances, the New Deal could engage only in partial, piecemeal planning that could be justified on other grounds and described in other terms. Yet the planners continued to hope, particularly after the recession of 1937 brought a new period of economic adversity and a new sense of crisis and despair. The great majority of their countrymen, however, did not agree. Their vision was to remain essentially a mirage, a phantasy that produced tantalizing glimpses of the promised land but remained outside the realm of economic, political, and practical reality.¹⁴⁹

VI Tugwell and Institutionalism.

Tugwell's work clearly contains many elements that are very similar to ideas expressed by Veblen, Mitchell, Dewey, and Hobson. Tugwell's notions concerning the need for institutional change in the face of recent technical advances, the socially irrational nature of competitive behaviour, the effect of monopoly elements, and the distinction between making goods and making money, all had a long pedigree in institutionalist thinking. Tugwell combined these ideas with his own interest in agricultural problems, with the pragmatism and reformism of Dewey, and with Mitchell's advocacy of planning.

The major difference between Tugwell and earlier institutionalists is to be found in Tugwell's underconsumptionist views. In Veblen's work depression in a competitive system is due to

148. R.G. Tugwell, "The New Deal in Retrospect," op.cit., p.382.

149. E.W. Hawley, op.cit., pp.185-186.

overcapitalisation, and in a concentrated system is due to the control over output and price exercised directly or indirectly by the vested interests. Although this latter idea is still visible in Mitchell's and Tugwell's writings, the search for monopoly profit is not seen as the only or even the major cause of the failure of the system. In Mitchell's view depression is caused by a complex interaction of many variables, but stems from the system of pecuniary institutions. Mitchell, however, had allowed that the regular four phase cycle he had analyzed could be altered by the existence of inflexible prices or by other institutional changes,¹⁵⁰ and Tugwell's work can, therefore, be seen as an attempt to work out a theory of depression in the light of developments such as inflexible prices, high overhead costs, and corporate savings. Tugwell's ideas on this matter were, of course, rapidly overtaken by Keynesian developments, but, for all that, Tugwell's views, and particularly his strong position on the need for planning, have had a continuing influence on institutionalist writing.

Among writers who were contemporaries of Tugwell's, his influence shows up most clearly in the work of H. Taylor and M. Ezekiel. Taylor was first a student and then a colleague of Tugwell's at Columbia University and his writings show a marked similarity to Tugwell's. Taylor's book Contemporary Economic Problems and Trends, relies heavily on Tugwell's ideas. Taylor can be found arguing for an experimental approach, the use of

150. W.C. Mitchell, "The Social Sciences and National Planning," op.cit., pp.91-92.

national planning, and taking positions on corporate behaviour, and related issues, strikingly similar to Tugwell's.¹⁵¹

Perhaps Taylor's most interesting ideas are expressed in his Making Goods and Making Money. Taylor argued that while there was a conflict between making goods and making money, the logic of capital intensive production was doing something to alleviate the problem.¹⁵² Like Tugwell, Taylor felt that with large scale production techniques with their high overhead costs, firms would be obliged to produce at high volume in order to achieve low cost production. Thus, while the conflict between making goods and making money was still extant and embedded in the institutions of private property and private enterprise, the direction of technical change meant that the "frontier of conflict between social and individual interests is being pushed steadily further away."¹⁵³ This is a view that represents a significant modification of Veblen's views, and an extension of Tugwell's notions concerning the direction of movement from low volume and high cost production to high volume and low cost production.

M. Ezekiel was a student of W. Hamilton's at the Brookings Institution,¹⁵⁴ but became a colleague of Tugwell's at the Department of Agriculture during the New Deal. His views on

151. H. Taylor, Contemporary Economic Problems and Trends (New York, 1938), pp.13-34, 83, 576-589. This book, as was Tugwell's American Economic Life, was used in the Contemporary Civilization course at Columbia University.

152. H. Taylor, Making Goods and Making Money (New York, 1928), pp.1-23, 245-266.

153. Ibid., p.266.

154. For an overview of Ezekiel's career see J. Dorfman, The Economic Mind in American Civilization, 5: 437.

the operation of the economic system suggest a combination of ideas from Tugwell, Taylor, and G. Means. Ezekiel argued that the economy had the physical capacity to produce at a level that would provide a reasonable standard of comfort for all, but such "abundant living" was not attained due principally to the business need to make profits and the development of a system of inflexible, administered prices.¹⁵⁵

Ezekiel argued with Tugwell and Taylor that the direction of technical change was towards high volume low cost production, but that each individual businessman was afraid to increase his volume of output in case he started a price war, or so reduced the market price of his product that his profit would decline. Thus, "the thing that prevents businessmen from expanding production...is the fact that they don't see any way by which they can sell the increased production."¹⁵⁶ However, if all businessmen expanded output, employed more men, and paid out more to workers then "markets and sales would expand in step with production."¹⁵⁷ What was needed, in Ezekiel's view, was "some method by which production, buying power, and markets for the goods, can thus be increased all at the same time."¹⁵⁸ Thus, by a somewhat different route than Tugwell, Ezekiel reaches the conclusion that decentralised competitive production is inadequate as a system of coordination and control under modern circumstances.

155. M. Ezekiel, \$2500 A Year (New York, 1936), pp.14-67.

156. Ibid., pp.30-32.

157. Ibid., p.32.

158. Ibid., p.32.

Ezekiel wanted to see certain changes in the "rules of the game," a modifying of the profit system, and an implementation of national planning to secure industry-wide coordination. Ezekiel's views made him one of the group of planners in the New Deal. Ezekiel's ideas for planning were set out in his books published between 1934 and 1939, and his plans show a close similarity to Tugwell's.¹⁵⁹ He wished to see the establishment of "industrial authorities" consisting of representatives from labour, management, consumers, and government, who would work out expansion programmes for each industry. Ezekiel thought that such programmes would allow volume production at low prices and allow both wages and profits to be raised. These programmes would be coordinated by "inter-industry agencies" and a central planning board. Other elements in Ezekiel's programme were a scheme to retrain workers, a special effort to expand and modernise the housing industry, and a government guarantee against business losses.¹⁶⁰

Tugwell's ideas also appear to have had a continuing influence on institutionalist thought, an influence that is perhaps best seen in the writings of J.K. Galbraith and A. Gruchy. Galbraith takes over and considerably expands on Tugwell's idea of the large firm as one that engages in planning. Indeed, for Galbraith, it is in order to gain the advantages of planning that gives firms their greatest incentive for growth and large

159. Ibid., pp.68-136. See also M. Ezekiel, Jobs for All Through Industrial Expansion (New York, 1939).

160. M. Ezekiel, \$2500 A Year, pp.83-104, 137-148, 160-185, 204-214, 299-306, M. Ezekiel, Jobs for All, pp.20-188. See also E.W. Hawley, op.cit., pp.179-186.

size. The corporation seeks to become large in order that it can control and plan its sources of supply, its sources of capital, its prices, and the demand for its products.¹⁶¹ In this manner the large corporation can reduce the risks that it faces. Galbraith diverges most obviously from Tugwell in his argument that the large corporation, with its internal planning and resulting technostucture, does not seek monopoly profits but to maximise growth or sales.¹⁶² This, however, raises a question; if large corporations maximise sales, why should they be objected to? Galbraith's answer concerns, among other things, the degree of power they exercise over consumer wants, their political power, and the instability they impart to the economic system.¹⁶³

Galbraith argued that large corporations, or the "planning system," create instability due to a mismatch between their saving and investment plans.

As the saving decisions of the planning system are made by a comparatively small number of large corporations, so also are the decisions to invest. Large magnitudes are involved. And there is no mechanism by which the two sets of planning decisions ...are matched. Not even the most ardent defender of the neo-classical system imagines that the market any longer serves--that interest rates fall as necessary to discourage excessive saving and encourage insufficient investment so as to keep the two equal. Accordingly intentions to save can

161. J.K. Galbraith, The New Industrial State (Boston, 1967), pp.71-77; and J.K. Galbraith, Economics and the Public Purpose (Boston, 1973), pp.38-42, 81-109.

162. J.K. Galbraith, The New Industrial State, pp.154-180; and J.K. Galbraith, Economics and the Public Purpose, pp.106-107.

163. These lines of argument can be found in J.K. Galbraith, The Affluent Society (Boston, 1958), pp.103-199; J.K. Galbraith, The New Industrial Estate, p.256; J.K. Galbraith, Economics and the Public Purpose, pp.122-240.

easily exceed intentions to invest. In consequence there can be a deficiency in demand. As this deficiency reduces output and renders a plant idle it will reduce investment further and thus aggravate further the deficiency in demand. This process will continue until declining profits have a more than offsetting influence on savings.¹⁶⁴

As prices and wages are also inflexible downwards none of the adjustment mechanisms of a competitive system can operate.¹⁶⁵

Galbraith's analysis to this point has some similarities to Tugwell's. Both find price inflexibility in a downward direction and corporate savings to be key factors, and to both the problem is that the market system fails to adequately co-ordinate certain sets of decisions.

Galbraith extends this point about coordination in his argument that the system of large corporations indulging in their own planning

...involves an intricate co-ordination as between its several parts in pursuit of their purposes. There is every likelihood that from time to time this co-ordination will fail...The solution is to recognise the logic of planning with its resulting imperative of co-ordination. And government machinery must then be established to anticipate disparity and ensure that growth in different parts of the economy is compatible.¹⁶⁶

In other words the state must impose "overall planning on the planning system."¹⁶⁷ This is again an argument very similar to Tugwell's.

The major differences between Galbraith and Tugwell can be

164. J.K. Galbraith, Economics and the Public Purpose, p.182.

165. Ibid., pp.182-183.

166. Ibid., p.318.

167. Ibid., p.318.

found in the replacement of the Hobsonian ideas of Tugwell by the modified Keynesianism of Galbraith, in the Galbraithian idea of growth or sales maximisation being the major corporate goal, and in Galbraith's analysis of inflation. While, for Tugwell, inflation was a result of government deficits, for Galbraith it is a result of the power of large firms over prices and large unions over wages. Given these, Galbraith argues that it is usual for the large corporation to simply concede union wage claims and pass them on. Galbraith also argues that inflation is difficult, if not impossible, to cure without moving towards some degree of government control over wages and prices.¹⁶⁸

Allan Gruchy is another example of a modern institutionalist who appears to have carried on, although with a substantial modification, some of Tugwell's ideas. Certainly Gruchy is the foremost proponent of national planning within contemporary institutionalist ranks, and even, at times, tends to equate institutionalism with the advocacy of national planning.¹⁶⁹ For Gruchy, as for Galbraith, the arrival of large scale enterprise, large corporations, large unions, or "major economic interest groups" with power over prices, have reduced the ability of the system to adjust automatically. For Gruchy the Keynesian policy prescriptions are inadequate as they do not alter the "basic structure of the economy." What is required

168. Ibid., pp.186-197.

169. See for instance A. Gruchy, "Government Intervention and the Social Control of Business: The Neoinstitutionalist Position," Journal of Economic Issues 8 (1974): 245-247; and A. Gruchy, "Institutionalism, Planning, and the Current Crisis," Journal of Economic Issues 11 (1977): 431-447.

is government control in the form of national planning. Such, according to Gruchy, is the logic of the thing.¹⁷⁰

VII Evaluation.

Tugwell's work, it must be concluded, failed to have much influence on the orthodox tradition in economics. His thinking on depressions which lay at the heart of his analysis of the operation of the economic system was soon to be overtaken by Keynesian ideas. Other criticisms can also be made of Tugwell's work, notably that his views on psychology, despite the importance he attached to them, remained sketchy and in fact came down to little more than the unsupported belief that man had or could come to have a cooperative rather than a competitive nature. As with Patten, Veblen, Ely, and Adams, Tugwell thought that through the harnessing of modern technology more fundamental values could be regained.

Despite the weakness in Tugwell's formulations on particular points he did have considerable influence within institutionalism, and this influence can be seen in two major areas. The first is with the idea that with technological change so certain institutional changes become necessary. This element is taken from Veblen, but it is less deterministic than some of Veblen's formulations, as in Tugwell's work the process of institutional change is open to intelligent guidance and there is not the close link between technology and habits of thought that there is in some of Veblen's work. Nevertheless, technology is the important factor in the process of change, and similar ideas

170. Gruchy gives a summary of his views in Contemporary Economic Thought, pp.310-322.

can be found in the work of Ayres, Galbraith and Gruchy.¹⁷¹

The second important area in Tugwell's work is to be found in the treatment of large scale business. In the work of Veblen, Hamilton, and Mitchell, the problem of monopoly power was seen as the resulting restriction in output and increase in prices. Monopoly, in the work of these writers, did not create instability; rather, it was competition that created instability. Tugwell was the first institutionalist writer to argue in any depth that the problem of monopoly control over price extended to the creation of instability, depression, and the failure of markets to coordinate the decisions of firms. Although Tugwell's particular demonstration of this line of argument, relying as it does on Hobsonian ideas, has been shown to be at fault, the general line of argument itself has been retained and elaborated upon in the institutionalist literature.

Tugwell's work, then, has importance principally within the institutionalist movement. His work marks a line that divides those institutionalist concerned with the instability of a competitive system from those concerned with the instability of a more concentrated system. This change, of course, reflected the changes in the structure of the United States' economy, but Tugwell's efforts shaped many of the later institutionalist attempts to analyse such a system.

171. See A. Gruchy, Contemporary Economic Thought, pp.95-96, 134-135, 296-297.

CHAPTER 9

CLARENCE AYRES:

INSTITUTIONALISM, TECHNOLOGY, AND PROGRESS

C.E. Ayres had an unusual background for an economist. His early training at the University of Chicago was in philosophy as well as economics, and his doctoral thesis was entitled The Nature of the Relationship Between Ethics and Economics, a subject that was to remain one of his principal interests. It was, however, not until Ayres had completed his doctorate and moved to Amherst that he came into closer contact with institutionalist ideas. Ayres worked as an instructor for Walton Hamilton, whose unorthodox attitudes had a considerable influence.¹ Ayres later moved to Reed College, but in 1924 he joined the editorial board of the New Republic, and contributed many articles on a bewildering range of topics from literary criticism to behavioural psychology. He also came into contact with John Dewey, R.H. Tawney, Alvin Johnson, and the editor Herbert

1. W. Breit, "The Development of Clarence Ayres' Theoretical Institutionalism," Southwestern Social Science Quarterly 54 (1973): 244-246; W. Breit and W.P. Culbertson, "Clarence Edwin Ayres: An Intellectual Portrait," in Briet and Culbertson, eds., Science and Ceremony: The Institutional Economics of C.E. Ayres (Austin, 1976), pp.5-6.

Croly.²

Between 1925 and 1928 Ayres devoted his time to writing and produced his first two books, Science The False Messiah and Holier Than Thou: The Way of the Righteous. Both of these books show a concern with the social or institutional foundations of knowledge and belief, a view he was later to modify in the light of Dewey's work.³

Ayres returned to the academic world with a short stay at the Experimental College of the University of Wisconsin, and in 1930 he took a summer appointment at New York University where W. Atkins and several other institutionalists were located.⁴ Later that year Ayres was offered a position at the University of Texas where he remained until his retirement in 1968.⁵

The major influences on Ayres were undoubtedly Veblen and Dewey. Ayres attempted to develop a version of institutionalism by fusing Dewey's instrumentalist philosophy with Veblen's distinction between the institutional and the technological. Ayres' work is very largely concerned with constructing a theory of value on a technological basis, and with applying this theory as a critique of contemporary thought and practice. It is, however, important to note that Ayres produced a system of thought that is distinctly his own, and is not simply a combination of Veblenian ideas with those of Dewey.⁶

2. W. Briet and W.P. Culbertson, op.cit., pp.5-6.

3. Ibid., pp.7-8.

4. Ibid., pp.7-8. Ayres contributed the final chapter to the text produced by Atkins and his department, Economic Behavior: An Institutional Approach, pp.475-504.

5. W. Briet and W.P. Culbertson, op.cit., pp.8-20.

6. Ibid., pp.10-14. See also A.W. Coats, "Clarence Ayres' Place in the History of American Economics," in Science and Ceremony, pp.25-26.

I Method and Scope.

Ayres' views on the method and scope of economics stem from his early work on the nature of science. In this Ayres was deeply influenced by W.G. Sumner and T. Veblen, and he characterised science as nothing more than the "new folk-lore."⁷ For Ayres, there could be no "transcultural" definition of truth and no transcultural values, the validity of knowledge being established only by belief or acceptance.⁸ In this manner Ayres rejected all absolutes and was "skeptical about the possibility of scientific knowledge."⁹

On the other hand, Ayres was much more positive about technology, and went so far as to suggest that it was technical change that forced alterations in the body of "pure" science.¹⁰ Thus, from the first, Ayres saw a dichotomy between "folklore" and technology,¹¹ but it must be noted that in this early work the role of technology was left undeveloped with the result that there was nothing to replace the "pseudo-science" Ayres criticised.¹²

Ayres later withdrew from this extreme relativism¹³ but

7. C.E. Ayres, Science: The False Messiah, and Holier than Thou (Clifton, 1973), pp.21-30, 294.

8. Ibid., p.25.

9. G. Tullock, "Science's Feet of Clay," in Science and Ceremony, pp.139-140.

10. Ibid., p.140; C.E. Ayres, Science the False Messiah, p.113.

11. The importance Ayres gave to this dichotomy can be seen in C.E. Ayres, "The Co-ordinates of Institutionalism," American Economic Review 41, supp. (1951): 47-55.

12. C.E. Ayres, Science: The False Messiah, pp.282-293; G. Tullock, op.cit., p.137.

13. C.E. Ayres, "Prolegomenon to Institutionalism," in Science: The False Messiah, p.x; see also C.E. Ayres, "The Pestilence of Moral Agnosticism," Southwest Review 42 (1957): 116-125; C.E. Ayres, "The Gospel of Technology" in American Philosophy Today and Tomorrow, eds., H.M. Kallen and S. Hook, (New York, 1935), p.39, n.3.

continued to utilise the distinction between folklore, or the "ceremonial," and technology, and maintained his critique of much of what was called science. Ayres did this by arguing that a transcultural science and set of values could be developed that took their sanction from more than just belief. The basis of this science and system of values Ayres found in Dewey's instrumentalism and Veblen's notion of workmanship.¹⁴

Following the instrumentalist line Ayres came to define science as an instrument, the "thinking part of the tool using process."¹⁵ Thus economics has a purpose, which is to discover "whether a given set of social arrangements is orderly or not; whether or not it provides a stable basis for an enduring civilization."¹⁶ Economic science is conceived of as a tool to be utilised in the furtherance of the "life process."¹⁷ Building on his earlier views on technology, Ayres identifies this "life process" with the advance of technology.

Throughout the ages every community has owed its existence to its heritage of tools and apparatus, the "know-how" which is a function of the tools, and the materials which owe their significance to the tools

14. C.E. Ayres, The Problem of Economic Order (New York, 1938), pp.37-39; C.E. Ayres, The Theory of Economic Progress (New York, 1968), pp.62-85, 205-211; C.E. Ayres, Towards a Reasonable Society (Austin, 1961), pp.39-52; C.E. Ayres, "Economic Value and Scientific Synthesis," American Journal of Economics and Sociology, 1 (1942): 341-360; C.E. Ayres, "Instrumental Economics," New Republic, 121 (1949): 18-20; C.E. Ayres, "The Values of Social Scientists," Journal of Social Issues 6 (1950): 17-20; C.E. Ayres, "The Pestilence of Moral Agnosticism," op.cit., pp.116-125; C.E. Ayres, "Moral Confusion in Economics," International Journal of Ethics 45 (1935): 170-199.

15. C.E. Ayres, "Prolegomenon to Institutionalism," op.cit., p.vi; see also C.E. Ayres, "Review of The Quest for Certainty by John Dewey," International Journal of Ethics 40 (1929/30): 425-433.

16. C.E. Ayres, The Problem of Economic Order, p.39.

17. C.E. Ayres, "The Value Economy," in Value, A Cooperative Enquiry, ed., R. Lepley, (New York, 1969), pp.43-63.

with which they are manipulated. It is by carrying on this instrumentally organized activity that every community--and each separate individual--"makes a living." Whatever contributes to carrying on this activity is economically valuable, and whatever arrests or even hinders this activity is therefore economically deleterious.¹⁸

Because Ayres felt that this argument applied to "every community" he claimed to have found a trans-cultural standard with which to judge knowledge; a standard of both truth and value. It is the "technological continuum" that "contains within itself a criterion both of truth and of value that is the same for all ages, all peoples, and all cultures."¹⁹ Ayres identified "progress" with the advancement of science and technology, so that scientific and technological advance is to be seen as both instrumentally efficient and desirable, while anything that blocks such advance is instrumentally inefficient and undesirable.²⁰

Ayres' emphasis on technology does not mean that he felt that it was the only force that required consideration.

In recognizing the dynamic character of technology, institutionalism of course does not minimize the importance of the institutional patterns of our own or any other society. How could it? The very tag, "institutionalism," signalizes the insistence of Veblen and the institutionalists generally upon the importance of prevailing institutions in the determination of wants and scarcities that prevail in any community or in any given part of it. Those institutions of course derive from pre-existing institutions and the immemorial past, of which they retain as much as circumstances permit and from which they derive

18. C.E. Ayres, The Theory of Economic Progress, pp.222-223.

19. C.E. Ayres, "The Pestilence of Moral Agnosticism," op.cit., p.125.

20. C.E. Ayres, "The Path of Progress," Southwest Review 28 (1943): 229-232.

their sanction. But the circumstances which shape and modify and attenuate the institutional heritage are those of technology.²¹

Ayres was anxious to emphasise that he did not view technology as something external to the social structure or to human behaviour. Ayres' view was that human behaviour was a cultural product conditioned on the one hand by the institutional framework, and, on the other, by the "industrial arts;" while the progress of the industrial arts both affected and was affected by institutions and behaviour.²² Economics could not assume a fixed or given human nature, but must base itself on a "behaviouristic psychology," which in Ayres' hands became a "cultural monism" with no attention being given to underlying human motives or aspirations. For Ayres, the "individual is simply irrelevant."²³

Economics, then, was to generate a theory of the "social order," to discover whether or not "we are going on the rocks."²⁴ In other words, it was required to answer the question whether the existing social order is conducive to progress or not.

21. C.E. Ayres, "The Coordinates of Institutionalism," op.cit., p.51; see also C.E. Ayres, "Discussion--The Ethics of Competition," International Journal of Ethics 46 (1936): 364-370.

22. C.E. Ayres, "The Coordinates of Institutionalism," op.cit., pp.48-52; C.E. Ayres, "Fifty Years Developments in Ideas of Human Nature and Motivation," American Economic Review 26, supp. (1936): 224-236; C.E. Ayres, The Theory of Economic Progress, pp.89-104; C.E. Ayres, The Industrial Economy (Cambridge, Mass., 1952), pp.47-61.

23. M. Gottlieb, "Clarence Ayres and a Larger Economic Theory," Southwestern Social Science Quarterly 41 (1960/61): 39-44. See also C.E. Ayres, "The Coordinates of Institutionalism," op.cit., pp.48-50; C.E. Ayres, "Fifty Years' Developments in Ideas of Human Nature and Motivation," op.cit., pp.235-236; C.E. Ayres, "The Epistemological Significance of Social Psychology," Journal of Philosophy 15 (1918): 35-44; C.E. Ayres, The Industrial Economy, p.41.

24. C.E. Ayres, "Moral Confusion in Economics," op.cit., pp.171-172.

Ayres argued that to achieve this task economics must be based on the Veblenian distinction between institutions and technology, utilise a behaviouristic psychology, and define values instrumentally.²⁵

Ayres was also clear that the task was a theoretical one, although the object of theory was not to produce isolated predictions "however accurate," but "an organized, integrated, and coherent account of the forces at work in a certain aspect of the cosmos."²⁶ Ayres criticised those institutionalists who had downplayed the use of theory, and on one occasion argued that there was "nothing amiss" with deduction.²⁷ Nevertheless, Ayres usually argued that theorising must be based on empirical findings, and there can be no doubt that Ayres felt that his own basic propositions were in harmony with "modern," "empirical," social thinking. Occasionally Ayres advocated "experimentalism," although without making his meaning clear.²⁸

All of this, of course, provides a basis for the critique of the methodology and epistemology of orthodox economics. Ayres characterised orthodox economics as resting on a set of a priori assumptions. These assumptions are that man is self-seeking, and that man "naturally" seeks pleasure and avoids

25. C.E. Ayres, "The Co-ordinates of Institutionalism," op.cit.; C.E. Ayres, "The Nature and Significance of Institutionalism," Antioch Review 26 (1966): 84-90.

26. C.E. Ayres, "Moral Confusion in Economics," op.cit., p.183.

27. Ibid., pp.171-174; C.E. Ayres, The Theory of Economic Progress, pp.11-12, 73-74, 209.

28. C.E. Ayres, "Economic Value and Scientific Synthesis," op.cit., p.350; C.E. Ayres, "Piecemeal Revolution," Southwestern Social Science Quarterly 30 (1949/50): 12-17.

tain.²⁹ Orthodox theory is, therefore, one of natural laws "of a distinctly theological persuasion," which take effect "in a natural harmony or equilibrium of forces, a balance, for instance, of supply and demand."³⁰

The dominant tradition in economic thinking perpetuates a conception of the economy which was formed before the Darwinian revolution. That conception undertook to explain the patterns of economic life--and, indeed, of the whole of organized society--as giving "natural" expression to the "original nature of man."³¹

For Ayres, orthodox theory is "price theory;" a system of thought which places the market and prices at the centre of the economic order. It is an "explanation of the social order (price equilibrium), as an expression of human nature (wants and satisfactions)."³² Wants are taken as the ends of economic activity, and prices as values and a guide to welfare. Production "is conceived to be valuable not 'in itself' but only as a 'means' to the transcendent 'end'."³³

It is this transcendentalism which has kept economic thinking in bond to price theory...In classical theory consumption is no vulgarly physical activity ...it is a matter not of the use of things but of the consumption of "value"...Consequently the economist can know economic value only as it is revealed in the wants with which each individual

29. C.E. Ayres, The Industrial Economy, pp.36-37; C.E. Ayres, "Economic Value and Scientific Synthesis," op.cit., p.347.

30. C.E. Ayres, "Moral Confusion in Economics," op.cit., p.175.

31. C.E. Ayres, The Industrial Economy, p.28.

32. C.E. Ayres, "Fifty Years' Developments in Ideas of Human Nature and Motivation," op.cit., p.235.

33. C.E. Ayres, "Economic Value and Scientific Synthesis," op.cit., p.351. Ayres was clear that it was only as a theory of the social order that economics could have any meaning at all. Isolated predictions did not constitute a science. See C.E. Ayres, "Moral Confusion in Economics," op.cit., p.183.

reports his own unique spiritual experiences; and since these are made known by purchases which in turn are gathered up and synthesized in the price system, it follows that the price system is the only locus of value and guide to economic welfare.³⁴

Ayres was aware that economists had attempted to rid their discipline of hedonistic references, but

their insistence upon the indispensability of the price system as the sole register of "wants" (which in turn are the sole register of value) can mean only one thing: the conception of values as quantities of mind or spirit which can be known only by inward contemplation.³⁵

This Ayres finds to be "pre-Darwinian" and in opposition to "the direction in which the whole of modern thought has been moving;" that is, "toward science and away from metaphysics." Modern science, for Ayres, "knows nothing of transcendent ends."³⁶ For institutionalists, the objective is the explanation of "human nature (working, buying, consuming, investing, and so forth) as an expression of the social order (institutions and technology);"³⁷ and, as behaviour, wants, and satisfactions, are all endogenous, the only way the social order can be understood is as a process, with markets and prices taken as being reflective rather than as regulative.³⁸ What is more, as wants are partly determined by the institutional structure,

34. Ibid., pp.351-352.

35. Ibid., p.352.

36. Ibid., pp.352-353.

37. C.E. Ayres, "Fifty Years' Developments of Ideas of Human Nature and Motivation," op.cit., p.235.

38. C.E. Ayres, "The Nature and Significance of Institutionalism," op.cit., pp.78-79; C.E. Ayres, "Institutional Economics--Discussion," American Economic Review 47, supp. (1957): 26-27.

and as the question to be answered is whether or not the institutional structure is conducive to progress, to simply assume that wants represent ends makes orthodox economics tautological. Prices, then, cannot be taken as providing a measure of value or a guide to welfare.³⁹

From the above the debt Ayres owes to Veblen and Dewey is quite clear. Ayres drew heavily on Veblen's distinction between the technical and the institutional, and found his locus of value in the equivalent of Veblen's "instinct of workmanship." Of course Ayres removed Veblen's references to instincts, replacing them with a behaviouristic psychology, and justifying the use of workmanship, or technology, as the locus of value on instrumental grounds taken from John Dewey.⁴⁰ Ayres' epistemology and methodology require that the traditional distinctions between knowledge and values and between means and ends be abandoned, and that economics be based on the empirical findings of "modern science."⁴¹ As might be expected, most of the major elements in Ayres' position have been the

39. C.E. Ayres, "The Nature and Significance of Institutionalism," op.cit., pp.23, 80; C.E. Ayres, The Theory of Economic Progress, pp.78-85.

40. C.E. Ayres, "The Legacy of Thorstein Veblen," in Institutional Economics (Berkeley, 1963), pp.45-62; C.E. Ayres, "Veblen's Theory of Instincts Reconsidered," in Thorstein Veblen: A Critical Reappraisal, ed., D. Dowd, pp.25-37; C.E. Ayres, "Instinct and Capacity I and II," Journal of Philosophy 18 (1921): 561-565, and 19 (1921): 600-606. For Ayres' comments on Dewey see C.E. Ayres, "Review of J. Dewey's Human Nature and Conduct," Journal of Philosophy 19 (1922): 469-475; C.E. Ayres, "Review of J. Dewey's The Quest for Certainty," International Journal of Ethics 40 (1929/30): 425-433; C.E. Ayres, "Instrumental Economics," op.cit., pp.18-20.

41. C.E. Ayres, "The Pestilence of Moral Agnosticism," op.cit., pp.116-125; C.E. Ayres, "Instrumental Economics," op.cit., pp.18-20; C.E. Ayres, "Piecemeal Revolution," op.cit., pp.12-17.

subject of considerable criticism.

A.B. Wolfe has argued that in his attempt to set up a general standard of value it is Ayres, and not the orthodox economist, who is guilty of transcendentalism. Wolfe also characterises Ayres as arguing that "we exist for the technological process, rather than the reverse," a position that Wolfe feels denies the "ethical ultimacy of the individual" and provides a philosophy that "could lead as well to fascism... as to liberty and democracy."⁴²

Others, such as A.P. Lerner, P.T. Homan and Frank Knight have leveled similar criticisms,⁴³ but Knight delves deeper into Ayres' philosophy. First, Knight points out that Ayres' work "assumes for technology some kind of an inner law of progress of an absolute and inscrutable character," and questions whether technology can really be seen as the dynamic factor in social change.⁴⁴ Second, Knight attacks Ayres' "unintelligible" combination of moralism with his technological interpretation of historical change, and argues that to define knowledge and values instrumentally is "ethically perverted;" a way of discussing moral problems that has "intellectually repugnant implications."⁴⁵

42. A.B. Wolfe, "Review of The Theory of Economic Progress by C.E. Ayres," Political Science Quarterly 59 (1944): 622-624.

43. A.P. Lerner, "Review of The Theory of Economic Progress by C.E. Ayres," American Economic Review 35 (1945): 160-164; P.T. Homan, "Review of Towards a Reasonable Society, by C.E. Ayres," American Economic Review 53 (1963): 147-151; F. Knight, "Intellectual Confusion on Morals and Economics," International Journal of Ethics 45 (1935): 200-220.

44. F. Knight, "Intellectual Confusion on Morals and Economics," op.cit., pp.208-209.

45. Ibid., pp.212-220; see also W.J. Samuels, "The Knight-Ayres Correspondence: The Grounds of Knowledge and Social Action," Journal of Economic Issues 11 (1977): 485-524.

Ayres attempted to defend himself against such criticisms by repeating his contention that technology is the dynamic factor, and that

there is no escape from the metaphysical nothingness of inward moral contemplation...but to the utter relativity of mores, and no escape from that but to some other basis of judgement altogether distinct from mores...that other basis is technology.⁴⁶

Ayres was also adamant that the technological basis of value did not involve placing machines above people or opening the way to dictatorship or fascism. For Ayres the technological continuum, which contains

all the arts, all the sciences, and the whole vast range of tools and skills and know-how of which the arts and sciences are the highest expansion, does in fact contain and embody the judgement of all mankind and of all ages as to what is most valuable in life and what makes life worthwhile.⁴⁷

Elsewhere Ayres argues that scientific and technical advances are quite compatible with, if not inseparable from, freedom, equality, security, abundance, and excellence.⁴⁸ The lack of these things Ayres ascribes to the prevalence of ignorance, prejudice, dogma, and superstition.

Ayres' critique of price theory has also been heavily attacked, usually on the grounds that price theory is not

46. C.E. Ayres, "Confusion Thrice Confounded," International Journal of Ethics 45 (1935): 358; see also C.E. Ayres, "The Ordeal of the Social Sciences," Southwestern Social Science Quarterly 25 (1944/45): 247-257.

47. C.E. Ayres, "Addendum to the Theory of Economic Progress," American Economic Review 35 (1945): 939.

48. See C.E. Ayres, "Excellence in an Industrial Economy," Southwest Review 44 (1959): 139-149; and C.E. Ayres, Towards a Reasonable Society (Austin, 1961), pp.171-263.

incompatible with efforts to understand technical and institutional change, and that markets do play a key role in the allocation of resources.⁴⁹ Ayres, however, continued to reject such suggestions, maintaining that orthodox price theory had basic flaws and was fundamentally incompatible with institutionalism.⁵⁰ This attitude came not just from Ayres' epistemology, but also from his views on the processes of economic growth and development, and the role of economic orthodoxy as a system of apologetics.

II Technology and Institutions.

Ayres' theory of progress is based on the dichotomy between technology and institutions. As noted above, Ayres views technology as the dynamic element in the process of change

It is the peculiar character of all technology from chipped flints, to Boulder Dam and Beethoven's quartets, that it is progressive. It is inherently developmental. This circumstance which gives technology its peculiar importance in the analysis of culture--and most of all for economists--can be understood only in terms of tools...For the developmental character of technology is implicit not in the skill-faculty of the human individual but in the character of tools.⁵¹

Ayres goes on to explain the character of tools as follows

49. F. Knight, "Intellectual Confusion On Morals and Economics," op.cit., pp.215-216; W.R. Allen, "Review of The Theory of Economic Progress by C.E. Ayres," Social Science Quarterly 57 (1976): 236-238; C. Daniel, "Institutionalism and Conventional Economics: Complements or Substitutes," Social Science Quarterly 51 (1971): 992-994.

50. C.E. Ayres, "The Place of the Market Economy in Institutional Thought," Social Science Quarterly 51 (1971): 995-996. See also C.E. Ayres, "Institutionalism and Economic Development," Southwestern Social Science Quarterly 41 (1960/61): 57-62.

51. C.E. Ayres, The Theory of Economic Progress, pp.111-112.

We have learned that such technical innovations come about as a result of the physical character of tools which, like all physical objects are capable of being combined. We know with certainty that inventions and discoveries are combinations of tools, instruments, and instrumentally manipulated materials; and that the more tools there are, the greater is the potentiality of technical invention and discovery.⁵²

This suggests that technical progress is not a matter of particular attributes possessed by certain "Gifted Ones," but is a function of the pre-existing stock of techniques. Invention is a matter of combination which, for Ayres, explains the role of chance, and the contributions made by amateurs and newcomers who are free of the fixed ideas and preoccupations of those already involved in the field. Technology has within itself a tendency to accelerating advance, as "the more tools there are, the greater is the number of potential combinations."⁵³

Of course, the progressive and cumulative nature of technical change may not always emerge. Technology is not the whole of culture and other forces are also at work. These non-technological aspects Ayres classifies as institutional or ceremonial.⁵⁴ For Ayres the institutional or ceremonial "behaviour system" is quite opposed to that of technology.

Whereas technology is of its own character developmental the ceremonial function is static, resistant to and inhibiting of change...This does not mean that ceremonial behaviour-systems do not change. We know they do. But the changes which occur do not originate in or derive from the legend-mores-status complex itself.⁵⁵

52. Ibid., p.211. See also C.E. Ayres, "Technology and Progress," Antioch Review 3 (1943): 6-20.

53. C.E. Ayres, The Theory of Economic Progress, pp.112-120.

54. Ibid., p.155.

55. Ibid., pp.174-175.

Technological and institutional change are closely related. A change in technology will tend to bring about a change in the institutional framework. On occasion Ayres talked about a "lag" between technical change and the resulting institutional adjustment,⁵⁶ but it must be understood that:

it is a serious mistake to suppose that the new institutional patterns are a perfect match for the new technology. The institutions are to match each other, and they do so in response to technological development. But to suppose that they "catch up" is to misconstrue the nature of institutions. Social structures which "catch up" with technology thereby cease to be what we have understood as institutions, and become technically efficient organizational structures, for which we have as yet no simple name.⁵⁷

The institutional structure, if sufficiently resistant to change, may not only lag behind, but also inhibit or actually prevent technological changes from taking place. At the best the institutional structure is "permissive" of change.⁵⁸ From this, Ayres argues that "the over-all economic development of any people is conditioned by the interaction of the dynamism of technology and the inhibiting force of institutionalized tradition."⁵⁹ A position that forms the basis for his interpretation of the industrial development of western nations and his critique of the "classical theory of growth."

III Property, Capital, and Growth.

The industrialisation of western countries Ayres ascribed

56. Ibid., p.170.

57. C.E. Ayres, The Industrial Economy, p.103; see also C.E. Ayres, The Theory of Economic Progress, p.187.

58. C.E. Ayres, The Theory of Economic Progress, p.177.

59. C.E. Ayres, "Institutionalism and Economic Development," op.cit., p.50.

to a long series of technical advances which he traced back to the Dark Ages and beyond. While the "efficient cause" was technical, Ayres also pointed out that the "institutional crust" of western Europe "seems to have been uniquely thin and brittle and therefore permissive of change."⁶⁰

In discussing the process of institutional change, and particularly the alterations in the institution of property, Ayres emphasises that

these institutional changes did not precede and "make possible" the technological development with which they coincide...What brought them to pass was...the elaboration of administrative technique along distinctly instrumental lines, and the gradual atrophy of whatever institutional considerations of rank and power failed to take this line. To speak of this process as having made possible the development of machine technology is to misconstrue completely the essentially technological character of the process.⁶¹

This is not to say that the institutional framework does not still carry with it "a quite surprising amount of feudal baggage."⁶²

One aspect of the economy of modern Western society is institutional in character and derivation. The power-system of the modern economy is still a matter of institutionally determined status. In spite of all the apparatus of administrative machinery, discretionary control is still a matter of ceremonially determined rights the sanction of which derives from the legendary past.⁶³

60. C.E. Ayres, "The Theory of Institutional Adjustment," Texas Quarterly 9 (1966): 128-129; this article was also published in C.C. Thompson, ed., Institutional Adjustment (Austin, 1967), pp.4-17 in a slightly modified form.

61. C.E. Ayres, The Theory of Economic Progress, p.201.

62. Ibid., p.197.

63. Ibid., pp.201-202.

This "power system" or "social order," which is a "residue of our ceremonial past," is the "capitalist system," and its "legendary background" is the orthodox theory of growth. The "ceremonial character of property" inspired "modern society to think of accumulated wealth as the primary instrument of industrial production," and to "elaborate the concept of capital and whole classical interpretation of economic process."⁶⁴

For economic activity under capitalism "tools and materials are indispensable but especially money is indispensable." The orthodox use of the term capital combines and confuses the idea of capital as equipment and capital as a fund,⁶⁵ and suggests that the accumulation of funds makes possible the accumulation of physical tools and technical knowledge.⁶⁶ For Ayres, the idea that economic development depends on the accumulation of funds identifies "discretionary authority with social process." Its implication is that inequality and large private accumulations of wealth are a necessary part of the development of civilisation. It is the rich who save, so growth and development are identified with the prevailing power structure and distribution of income.⁶⁷ Ayres takes this argument to the point where he claims that "the economic power system of modern western society would...have been impossible without the

64. Ibid., p.202. See also C.E. Ayres, The Industrial Economy, pp.101-129; and C.E. Ayres, "The Classical Tradition Versus Economic Growth," Southwestern Social Science Quarterly 36 (1955/56): 343-350.

65. C.E. Ayres, The Theory of Economic Progress, p.49.

66. Ibid., p.50.

67. Ibid., pp.48-53.

myth of capital."⁶⁸

That the orthodox theory of capital is a myth Ayres has no doubt.

The truth is, we have known for some time that economic growth is self-financing. This is true, first, because banks (and behind them, governments) have the power to create funds, and secondly, because even the prospect of growth increases property values in such a way as to justify the creation of such funds.⁶⁹

Neither the prior accumulation of funds nor the creative genius of individual entrepreneurs are important.⁷⁰ Nevertheless, orthodox mythology still plays an important part in justifying the capitalist economic order, an economic order that, for Ayres, is severely hindering technical and hence economic progress.⁷¹

IV The Shortcomings of the Capitalist Economic Order.

Ayres' major areas of concern with the capitalist order involve imperfect competition and monopoly, depressions and unemployment, and international economic relationships. In Ayres' view all of these problem areas are related to the institutional structure of contemporary capitalist society, and

68. The "mythic" aspect of orthodox economics is elaborated in C.E. Ayres, The Industrial Economy, p.109; C.E. Ayres, "Moral Confusion in Economics," op.cit., passim; C.E. Ayres, "The Basis of Economic Statesmanship," American Economic Review 23 (1933): 200-216; C.E. Ayres, "The Classical Tradition Versus Economic Growth," op.cit., pp.343-350; C.E. Ayres, "Institutionalism and Economic Development," op.cit., pp.45-62; C.E. Ayres, "The Theory of Institutional Adjustment," op.cit., pp.125-136; C.E. Ayres, "Ideological Responsibility," Journal of Economic Issues 1 (1967): 3-11.

69. C.E. Ayres, The Industrial Economy, p.117.

70. C.E. Ayres, "Capitalism in Retrospect," Southern Economic Journal 9 (1943): 293-301. This article contains a critique of Schumpeter's ideas on the dynamics of capitalism.

71. C.E. Ayres, The Theory of Economic Progress, p.202.

particularly to the distribution of income which Ayres saw as an institutional product; a function of economic power, rather than a matter of productivities.⁷²

Competition and Monopoly.

Ayres' treatment of imperfect competition and monopoly owes a considerable amount to the work of Veblen, although ideas taken from Berle and Means and others are used to modify the Veblenian framework. In Ayres' treatment combination and large scale enterprise are the result of two processes. First, the greater scale of enterprise required by modern technology, and, second, the competitive struggle itself.

Competition as such is nothing more nor less than struggle. Each party to the struggle is always trying to put his competitors out of business and to absorb their customers. Thus competition is itself the high road to monopoly. How far the abler, more efficient, or more ruthless, competitor can go along this road depends wholly on the mechanical means at his disposal. Wherever in the industrial world large scale machinery has developed, its appearance has been the peremptory signal for consolidation.⁷³

Like Veblen, Ayres saw this process of consolidation as a predatory affair, with businessmen seeking to "seize the resources of other businessmen," in order to increase their "financial power." Monopoly, then, is not so much a "problem of price equilibrium," it is a problem of the concentration of power and the exercise of that power.⁷⁴ The needs of large scale technology had also led to the "technologization" of the

72. Ibid., pp.78-82; C.E. Ayres, The Industrial Economy, pp.361-365; C.E. Ayres, "Institutionalism and Economic Development," op.cit., pp.54-55.

73. C.E. Ayres, The Problem of Economic Order, p.70.

74. C.E. Ayres, The Industrial Economy, pp.388-392.

institution of property. By this, Ayres meant the separation "of the function of industrial management and control from that of income derivation."⁷⁵ Property had come to be "regarded as a claim to receive income, virtually without any reference at all to any physical objects by which that income might be presumed to have been earned."⁷⁶ While this allowed large scale and technical management to be undertaken by experts, both of which contributed to efficiency, the corporate form also allowed control of vast corporate empires to be held in very few hands. This leads to a distinction between the "passive income receivers" and the "managers or manipulators."⁷⁷

Passive income receivers are interested in maintaining their "vested interest" in their incomes, and this obviously calls for the maximum of business and social stability; whereas, on the contrary, managers are interested in building up their various spheres of influence and control, an ambition favored by unsettled conditions and even general disturbances, if they are not too severe.⁷⁸

There is, therefore, a considerable difference between the internal organisation of companies and the relationships between them. One is based on efficiency criteria and the other on predatory criteria.

Within the confines of existing industrial units ...a high degree of technological efficiency prevails...But the degree of technical efficiency that prevails within our present organisational units is incomparably greater than is characteristic of the relations between such units. As Veblen pointed out, these lacunae constitute the area in which the game of maneuver and chicane continues to be played, as it was in another age between

75. Ibid., p.395.

76. Ibid., p.123.

77. Ibid., pp.124-125.

78. Ibid., p.126.

feudal lords.⁷⁹

The problem of monopoly cannot be solved by attempts to restore competition. To do so would result in a loss of the internal efficiency of firms, and in any case would fail to remove the incentive for manipulative action. The perfectly competitive state is neither stable nor compatible with the requirements of modern technology.⁸⁰ Ayres' solution was to extend "the principles that prevail within business:" in other words, to apply the "principles of efficient organization" to the economy as a whole.⁸¹

Conspicuous Consumption.

Ayres' critique of the price mechanism as a register of welfare carries with it the idea that wants are partially determined by institutional or ceremonial criteria rather than by instrumental criteria. Although Ayres does not expand greatly on this topic, he does make reference to "conspicuous consumption" and the role of emulation and "invidious comparison" in determining wants.⁸² For Ayres, conspicuous consumption was "waste" and acted as a barrier to technological progress towards a state of future "abundance."

In short, abundance ends where snobbery begins.

79. Ibid., p.395.

80. Ibid., pp.384-387; see also C.E. Ayres, "Further Explorations in Monopolistic-Competitive Price Theory--Discussion," American Economic Review 48, supp. (1958): 486-488; C.E. Ayres, The Problem of Economic Order, pp.57-65.

81. C.E. Ayres, The Industrial Economy, p.397.

82. C.E. Ayres, Toward a Reasonable Society, p.239. Most of Ayres' comments on this issue are to be found in the early Holier Than Thou, see particularly pp.11-73.

Is snobbery likely to increase as fast as our capacity to produce, or even faster? If so all hope of future abundance might as well be abandoned. However large, the product of industry is always a finite quality, whereas the capacity to waste has no limit.⁸³

Ayres, however, was optimistic that with technological progress and a greater availability of goods the invidious and emulative aspect to consumption behaviour would decline.⁸⁴

Depressions and Unemployment.

Ayres' work on depressions and unemployment draws heavily on Hobsonian and Keynesian ideas. Like Keynes, Ayres attacks Say's Law and the notion that aggregate demand can never be deficient.⁸⁵ This is clearly linked with Ayres' arguments concerning the nature of capital, as under Say's Law saving becomes investment, and high levels of thrift lead to high rates of growth, justifying inequality in the distribution of income. Ayres wholeheartedly endorsed Keynes' argument that

in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed.⁸⁶

For Ayres the accumulation of funds was part and parcel of the "financial power system" as "the participants, both large

83. C.E. Ayres, Toward a Reasonable Society, p.239.

84. Ibid., pp.240-241.

85. C.E. Ayres, The Industrial Economy, pp.134-144. See also C.E. Ayres, The Divine Right of Capital (Boston, 1946), pp.25-30.

86. C.E. Ayres, "The Impact of the Great Depression on Economic Thinking," American Economic Review 36, supp. (1946), p.116. The quotation is taken from J.M. Keynes, The General Theory (London, 1970), p.373. Keynes does qualify this statement slightly, and felt it applied to inherited wealth rather than to incomes.

and small, in the struggle for economic power will accumulate all they can."⁸⁷ There is thus a considerable incentive for the accumulation of funds, and no reason why all the funds so accumulated should find their way into investment in plant and equipment. Funds may be hoarded, or accumulated in "unused bank reserves," or they may be used to purchase bonds and shares, resulting simply in inflated security prices. An outlet may be sought by making loans to foreign firms or nations, but this too will result in a leakage from the domestic spending stream, unless the loans are used to purchase domestic outputs.⁸⁸

Such discrepancies between the rate of saving and rate of investment result in the level of national income falling until saving is reduced to an amount equal to the level of investment.⁸⁹ Ayres, however, complicates this picture by arguing that investment is also highly variable and depends principally on the level of expected sales. Investment, then, tends to increase in booms when businessmen are optimistic, and fall in depressions when businessmen are pessimistic. This compounds the instability of the economy.⁹⁰

In a period of apparent prosperity and growth, businessmen look ahead. They anticipate larger sales and build accordingly. Consequently their plans will run ahead of actual current sales at any given moment. Thus the steadily increasing discrepancy between productive capacity and current sales adds another element

87. C.E. Ayres, The Theory of Economic Progress, p.265; C.E. Ayres, The Divine Right of Capital, p.29.

88. C.E. Ayres, The Industrial Economy, pp.142-144.

89. Ibid., pp.149-151.

90. Ibid., pp.153-159. This point is emphasised more in The Divine Right of Capital, pp.33-34.

of instability to that of the discrepancy between saving and investment.⁹¹

While this argument creates a difficulty in that it combines elements of both over-investment and under-investment theories,⁹² Ayres attempts to avoid the problem by arguing that in booms savings tend to grow at a faster rate than investment

Since saving predominates in large incomes, the channel through which savings flow can be truly identified as the large income channel; and since spending predominates in small incomes, the channel through which mass consumer purchasing power flows can be identified as the small income channel...As national income increases, small incomes increase and with them the flow of mass consumer purchasing power; and, stimulated by the prospect of sales, investment will also increase. But large incomes increase faster. Consequently, the flow of savings will increase faster than investment.⁹³

This line of argument, with its Hobsonian flavour, allows Ayres to locate the problem of instability in the size of the consumption stream. Obviously, if there is in any case a tendency to over-invest relative to consumption, the problem cannot be permanently solved solely by attempting to further increase public or private investment. What is required is an enlargement of "mass consumer purchasing power," to be achieved by redistributing income. This policy would both reduce savings, and, by increasing sales, provide the incentive for

91. C.E. Ayres, The Industrial Economy, p.159.

92. Ayres appears to be combining elements from Keynes with elements from Hobson. The work undertaken by Moulton and others at Brookings is also referred to by Ayres. Ibid., pp.135-141. See also C.E. Ayres, The Divine Right of Capital, p.87; and see above chapter 8.

93. C.E. Ayres, The Industrial Economy, p.159.

additional investment.⁹⁴

Ayres also felt that government deficit spending offered no permanent solution, as it did not "correct the basic condition." Thus, while Ayres allowed that deficit spending in depressions was certainly a "great step forward" he also maintained that it did "not go far enough" and failed to "get to the bottom of the causes of chronic instability."⁹⁵

The International Economic Order.

For Ayres the problem of instability was an international one and a major cause of international tension, colonialism, imperialism, and war.⁹⁶ The problem, therefore, could not be fully solved until its international dimensions were understood. The international dimension of the problem stems from the fact that each developed nation faces the same deficiency in mass consumption. Each nation attempts to resolve its own difficulties by increasing its exports, but "since it is impossible for the (existing) world market to absorb all the exports which all the industrial nations are prepared to dump abroad the ensuing struggle is one of unprecedented violence,"⁹⁷ at times resulting in war.⁹⁸

"Export!" is the categorical imperative of capitalism

94. Ibid., pp.161-165. See also C.E. Ayres, The Theory of Economic Progress, pp.265-282; and C.E. Ayres, "The Twilight of the Price System," The Antioch Review 3 (1943): 174-181; C.E. Ayres, The Divine Right of Capital, p.87.

95. C.E. Ayres, The Industrial Economy, pp.246-251.

96. Ibid., pp.166-185.

97. C.E. Ayres, "The Wealth of Nations," Southwestern Social Science Quarterly 21 (1940/41): 5.

98. C.E. Ayres, "The Economic Essentials to a Lasting Peace," Southwestern Social Science Quarterly 24 (1943/44): 68-79. See also C.E. Ayres, The Industrial Economy, pp.166-185.

and the basic economic cause of modern war because the chronic disease of capitalism is overproduction: overproduction of goods and over-accumulation of capital funds...Under capitalism more goods are produced than can be profitably sold and more money is accumulated than can be profitably invested. Consequently each of the capitalist powers has been faced with the alternative either of effecting a fundamental change in the system of distribution of goods and funds or of finding an "outlet" for "surplus" goods and funds...99

In this manner nations engage in "cut-throat competition" involving "imperialism," competitive currency depreciation, barter trade, import duties, and export bounties. Although Ayres desired to see the removal of constraints on trade he also argued that international trade alone "however general and free, offers no possibility of a general solution." This is so because "two nations both of which are suffering from industrial over-expansion can scarcely expect to solve their problems by trading with each other."¹⁰⁰

Mutually destructive competition between nations can be arrested only when the removal of such "unnatural restraints" as import duties and export bounties has been followed by positive control measures beginning with international currency control. This would mean in effect a world economic sovereignty, and even then the International Commerce Commission would face the problem of how to utilize world industrial capacity.¹⁰¹

This latter problem can only be solved by expanding mass consumer purchasing power in each country. Ayres suggests that this could be done by each nation individually or by a "world

99. C.E. Ayres, "The Economic Essentials to a Lasting Peace," op.cit., p.73.

100. C.E. Ayres, "The Wealth of Nations," op.cit., pp.5-7; C.E. Ayres, "Totalitarian Economics," Southwestern Social Science Quarterly 22 (1941): 107-115.

101. C.E. Ayres, "The Wealth of Nations," op.cit., p.6; C.E. Ayres, The Industrial Economy, pp.166-185.

economic authority," but he was convinced that it was within the power of individual nations.

Perhaps after all the real alternative is not between nationalism and internationalism but between the conquest of markets and the conquest of poverty. For each the national government is the appropriate and indeed inevitable vehicle. As a vehicle for the conquest of markets it becomes an instrument of world war. It becomes an instrument of peace and general free trade only when it is used to promote internal prosperity, the wealth of the national community.¹⁰²

V Planning and the Prospect of Industrial Society.

From the above it is clear that Ayres felt that economic progress was being inhibited. The economic system is organised in such a way that it leads to a struggle for financial power and monopoly, and a highly unequal distribution of income which results in insufficient consumption, depression, and international conflict. The system fails to keep the level of consumption up to the level that is required for technical advance.¹⁰³ The institutional system, therefore, requires adjustment as it is not instrumentally efficient. Orthodox economics, with its confusion between capital funds and capital equipment, and its justification of inequality, is also seen by Ayres as a major barrier to progress.¹⁰⁴

In order to overcome the institutional shortcomings of capitalism Ayres insisted that a system of "planning" was required. However, it must be noted that Ayres did not ad-

102. C.E. Ayres, "The Wealth of Nations," op.cit., p.9.

103. C.E. Ayres, The Industrial Economy, p.195; C.E. Ayres, The Theory of Economic Progress, p.262.

104. C.E. Ayres, The Theory of Economic Progress, pp.262-266; C.E. Ayres, "The Principles of Economic Strategy," Southern Economic Journal 5 (1939): 468-469.

vocate the regulation of production, and limited his proposals to the redistribution of income and the maintenance of consumption. To achieve these goals Ayres argued that a social security system, including a guaranteed income, and a public works programme should be instituted. These would be financed by progressive income taxes and capital gains tax.¹⁰⁵ Ayres' version of "planning" bears no comparison with Mitchell's or Tugwell's.

These "institutional adjustments" would result in what Ayres called a system of "limited capitalism." Ayres did not feel that his proposals would weaken incentives or economic growth. As his guaranteed income scheme involved a payment which would not decline with earnings, and income taxes would apply evenly to all lines of business, Ayres argued that neither proposal would "discourage anybody from doing as well as he could for himself in any line of business." More importantly, economic growth would be encouraged rather than hindered by the ensuing stability and high levels of consumption

105. C.E. Ayres, The Industrial Economy, pp.186-295; C.E. Ayres, "Twin Bases For A Limited Capitalism," Antioch Review 6 (1946): 17-31; C.E. Ayres, "The New Economics," Southwest Review 33 (1948): 223-232; C.E. Ayres, "Guaranteed Income: An Institutional View," in The Guaranteed Income, ed., R. Theobald (New York, 1966), pp.161-174. It has been suggested that Ayres desired the abandonment of the market system but this does not appear to be justified by Ayres' own writings. See D.D. Martin, "Beyond Capitalism: A Role for Markets?," Journal of Economic Issues 8 (1974): 771-784; Pham Chung, "Clarence E. Ayres on the Market System: A Note," Journal of Economic Issues 10 (1976): 688-694; Pham Chung, "Clarence E. Ayres and the Socialist Planning Debate," Journal of Economic Issues 12 (1978): 115-123; D.A. Walker, "The Economic Policy Proposals of Clarence Ayres," Southern Economic Journal 44 (1978): 616-628.

demand.¹⁰⁶ Indeed, continued economic growth depended on the acceptance of "planning,"

the citizens of industrial society must consume more abundantly not because it is their right to do so and not because justice or equality or any similar shibboleth is a valid guide to economic welfare, but because if they do not industrial society will collapse. It is the realization of this truth by the whole community of consuming citizens which has given rise to the movement of which an intelligently planned economy will be the eventual outcome.¹⁰⁷

This realisation of the need for "planning" and the use of instrumental rather than ceremonial criteria of judgement appears to be a technological product itself. This brings up the more deterministic element in Ayres' thinking which is most evident in his writings on the "cultural incidence of the machine process." Technological progress tended, in Ayres' view, to "de-institutionalize" society,¹⁰⁸ and to lead to the acceptance of "organizational devices." An instrumentally efficient organisation was not an institution as Ayres defined it, as institutions were based on ceremonialism and not on efficiency.¹⁰⁹

An industrial economy requires the use of instrumental criteria, it reduces the role of status and rank, increases the role of scientific knowledge and technical ability, and requires

106. C.E. Ayres, The Industrial Economy, pp.218-223, 264-269.

107. C.E. Ayres, "The Significance of Economic Planning," in S. Eldridge and Associates, The Development of Collective Enterprise (Lawrence, 1943), p.480.

108. C.E. Ayres, "The Theory of Institutional Adjustment," in C.C. Thompson, ed., Institutional Adjustment, p.8.

109. C.E. Ayres, The Theory of Economic Progress, pp.186-188; C.E. Ayres, "The Theory of Institutional Adjustment," in C.C. Thompson, ed., Institutional Adjustment, pp.8-17.

a high general level of education. Because of this

Modern civilization has been undergoing de-institutionalization throughout modern times. The process has of course been a relatively gradual one and wholly unintended, since it has been a function of technological progress and the growth of natural knowledge. Neither technological invention nor scientific discovery has been motivated by ideological disaffection. And yet the net effect over the past five centuries or so has been the virtually total demythologization of Western culture.¹¹⁰

It is, presumably, because Ayres felt that technical advance would bring with it an instrumentalist way of thinking that his idea of planning did not include the regulation of corporate competition or of consumption. Mythology would be replaced by pragmatism, and institutions by organisational devices. Through pragmatic adjustment to technical advance Ayres saw the possibility of stability, abundance, peace, security, freedom, equality, and excellence.¹¹¹

VI Ayres and Institutionalism.

Several authors have classified Ayres as a "neo-institutionalist" although the grounds for doing so are arguable. Marc Tool utilised the term in 1953 in a doctoral thesis concerning Veblen, Dewey, and Ayres,¹¹² and seems to define it as the combination of institutionalism and instrumentalism. However, as virtually all institutionalists were influenced by Dewey's

110. C.E. Ayres, "The Theory of Institutional Adjustment," op.cit., pp.8-9.

111. Ibid., pp.16-17; C.E. Ayres, Toward a Reasonable Society, pp.171-263; C.E. Ayres, The Industrial Economy, pp.400-420; C.E. Ayres, "Freedom Means Planning," New Leader, 4 January, 1947, pp.3, 17.

112. Marc Tool, "Neo-Institutionalism: Veblen, Dewey, and Ayres," (Ph.D. diss., University of Colorado, 1953).

instrumentalism the term loses any precise meaning, unless by institutionalism is meant only Veblen's version of it.¹¹³ It may, therefore, be more accurate to call Ayres a neo-Veblenian, but the term neo-institutionalist appears to have stuck, and is used frequently in the literature to refer to Ayres and his immediate followers.¹¹⁴

Allan Gruchy has also utilised the term neo-institutionalism but defines it in a different way. For Gruchy neo-institutionalism involves "no disavowal of standard economic theory," at least as far as it goes; a somewhat less deterministic view of the role of technology than Veblen had; and a concern with the "current era of post-mass consumption society."¹¹⁵ Gruchy includes Ayres, Galbraith, Myrdal and Colm in this category, although it must be doubtful if Ayres fits any of the criteria. Next to Veblen, Ayres was the most critical of orthodox theory, and he placed an extremely heavy emphasis on the role of technology. It is also unclear if Ayres can be thought of as being concerned with "post-mass consumption society."¹¹⁶

The term neo-institutionalism does, however, appear to be the preserve of what has been called the "Veblen-Ayres" wing of the institutionalist movement. This group has been defined

113. L. Junker has commented on this despite the fact that he uses the term himself. L. Junker, "The Theoretical Foundations of Neo-Institutionalism," The American Journal of Economics and Sociology 17 (1968): 198 n.1.

114. Ibid., and M. Tool, "A Social Value Theory in Neo-Institutional Economics," Journal of Economic Issues 11 (1977): 823-846, are two examples.

115. A. Gruchy, Contemporary Economic Thought, pp.15-18.

116. A.W. Coats, "Clarence Ayres' Place in the History of American Economics," op.cit., pp.24-25, 42-43; A.W. Coats, "Review of A. Gruchy's Contemporary Economic Thought," Journal of Economic Issues 8 (1974): 598.

as consisting of those who accept the distinction between technology and institutions, view economic development as a matter of the progressiveness of technical change as against the inertia of institutions, adopt a degree of technological determinism, and utilise "instrumental efficiency" as the criterion for selecting institutional adjustments.¹¹⁷ Besides Veblen and Ayres, J.K. Galbraith and R. Solo have been placed in this group,¹¹⁸ and it may be possible to include J. Gams, A. Gruchy, and, to some extent, R.G. Tugwell.

The ideas of the Veblen-Ayres group have drawn fire from Warren Samuels,¹¹⁹ a member of the Commons-Witte group of institutionalists. Samuels feels that a hard and fast distinction between the technical and the institutional is impossible to draw, that the normative elements involved in defining technology as "progressive" combined with the difficulty of defining technology means that there is a "selective identification" of what is technological and hence progressive, and what is institutional and hence regressive. Samuels also finds the high degree of determinism objectionable and argues that such factors as choice, human objectives, and power structures, also affect social and economic outcomes. All in all, Samuels finds the process of social and economic change to be much more complex and interrelated than the simple technology/institutions dichotomy would suggest.¹²⁰

117. W.J. Samuels, "Technology Vis a Vis Institutions in the JEI," Journal of Economic Issues 11 (1977): 871-874.

118. Ibid., p.871.

119. Ibid., pp.875-882.

120. Ibid., pp.875-882. Some of the differences between the two groups are a matter of different definitions of institutions, but even so there is a real difference of perspective.

On the other hand, a number of critics have argued in favour of more work being carried out along the levels of the Veblen-Ayres analysis.¹²¹ Gruchy has gone so far as to argue that writers such as Witte and Samuels are "deviant institutionalists," and that the future of institutionalism lies with the "mainstream" institutionalist tradition, which runs from Veblen to writers such as Ayres and Galbraith.¹²²

Whether they are to be called neo-institutionalists or simply the more recent members of the Veblen-Ayres group, it is clear that the Veblen-Ayres tradition continues in the writings of a number of men, many of them pupils of Ayres. Among these writers are David Hamilton, Wendell Gordon, Louis Junker, J. Fagg Foster, Thomas de Gregori, and Marc Tool, most of whom have been well represented in the pages of the Journal of Economic Issues. As many of these men were, or still are, located in the south western United States and are in close touch with each other, they have been christened the "Cactus League of Dissenting Economists" by J. Gambs.¹²³

Their major areas of interest are with consumption, poverty

Those in the Commons' tradition are less deterministic, place more emphasis on choice, and view institutions as more flexible and as a potential source of adjustment. Technology is much less stressed.

121. See particularly A. Gruchy, "Institutional Economics: Its Development and Prospects," op.cit., pp.12-23; J. Gambs, "What Next for the Association of Evolutionary Economics," Journal of Economic Issues 3 (1968): 69-80; B. Ranson, "The Alternative Paths to Theory of Clark and Ayres," Journal of Economic Issues 9 (1977): 461-467.

122. A. Gruchy, "Institutional Economics: Its Development and Prospects," op.cit., pp.24-25. See also A. Gruchy, "Institutional Economics: Its Influence and Prospects," op.cit., pp.271-281.

123. J. Gambs, op.cit., p.76.

and underdevelopment, but it is certainly not true, as Coats has claimed, that they do not follow Ayres' instrumental value theory.¹²⁴ Ayres' views on technology, institutions, and instrumentalism, are clearly evident in their work. This is most obvious in that of Foster and Tool,¹²⁵ but most attention here will be given to Hamilton, Junker, De Gregori, and Gordon.

David Hamilton's work, like Ayres, is firmly based on the distinction between the technical and the institutional.

Western Society has two outstanding features, technological advance and business. The market or the business aspect of that culture, can at best permit this technological progress and at its worst may inhibit it. In other words the market may deter the achievement of maximum human welfare.¹²⁶

Hamilton views technology as the dynamic factor and identifies technological advance with the "life process." As with Ayres, Hamilton argues that values can only be defined instrumentally, and criticises the use of institutional or ceremonial criteria.¹²⁷ Hamilton utilises his instrumentalism to develop a critique of consumption based on considerations of status or rank, and the prevailing inequalities in the distribution of income.¹²⁸

On the first issue, Hamilton makes considerable use of Veblen's Theory of the Leisure Class and Mitchell's Backward

124. A.W. Coats, "Clarence Ayres' Place in the History of American Economics," op.cit., pp.42-43.

125. Marc Tool, "A Social Value Theory in Neo-Institutional Economics," op.cit., pp.823-846.

126. David Hamilton, Evolutionary Economics (Albuquerque, 1974), p.123.

127. Ibid., pp.113-123; D. Hamilton, "What has Evolutionary Economics to Contribute to Consumption Theory?," Journal of Economic Issues 7 (1973): 197-207; D. Hamilton, "Why is Institutional Economics Not Institutional?," op.cit., pp.309-317.

128. D. Hamilton, The Consumer In Our Economy (Boston, 1962): 63-92, 389-450.

Art of Spending Money thereby extending Ayres' criticism of price as a measure of welfare.¹²⁹ On the latter point Hamilton follows Ayres' underconsumptionism and concludes that the "underwriting of consumption is essential to continued economic progress."¹³⁰

L. Junker also identifies progress with the "technological-scientific process," and utilises an instrumental theory of value. Like Ayres, Junker sees orthodox price theory as "transcendental" and "metaphysical."¹³¹ One of Junker's main areas of interest is with the development process in the less developed nations, and he argues that it is technology and not the accumulation of funds that is the dynamic element in development. What prevents development is not lack of funds but institutional limitations.

The real difficulty in trying to break the low level equilibrium trap is not savings as traditionally defined but lies in the lack of technology and in the power of tradition and vested rights in developing areas, and the inflexibility of the institutions by which international accessibility is determined.¹³²

Junker argues that increased saving is a result rather than a cause of development, and that the attempt to increase saving may reduce the rate of growth by reducing the level of consumption demand.¹³³ There is some confusion in Junker's work as it is frequently unclear if he is arguing that savings,

129. Ibid., pp.63-92.

130. Ibid., p.419.

131. L. Junker, "The Theoretical Foundations of Neo-Institutionalism," op.cit., pp.197-213.

132. L. Junker, "Capital Accumulation, Savings Centered Theory and Economic Development," Journal of Economic Issues 1 (1967): 25-43.

133. Ibid., pp.30-32, 41.

while necessary, are not sufficient, or if he is arguing that they are quite unnecessary.¹³⁴ This problem is also evident in the work of De Gregori, Gordon, and Street.

De Gregori accepts that the distinction between the technical and ceremonial is "useful for interpreting large scale historical change," but feels that it has a "lack of specificity in delineating and defining" problems.¹³⁵ De Gregori argues that what is required is to view technology as "problem solving," which allows the distinction between the technological or instrumental and the ceremonial to be defined in the light of the specific problem to be solved.¹³⁶ Despite this modification De Gregori is firmly committed to the Ayresian instrumental philosophy, and to the Veblen-Ayres tradition in institutionalism.¹³⁷

On development, De Gregori shares Junker's critique of the orthodox view of capital and growth, arguing that it is technology that produces growth and that savings in the sense of abstinence from consumption is not necessary for growth.

If we do not assume that the existing distribution of income is either necessary or sacred, then we can conceive of social and economic forms which do in fact organize human activity in such a way that

134. Ibid., pp.34-38. For comments on this confusion see A. Nichols, "On Savings and Neo-Institutionalism," Journal of Economic Issues 3 (1969): 63-66; P.A. Klein, "An Institutional View of Development Economics," Journal of Economic Issues 11 (1977): 795-799.

135. T.R. De Gregori, "Technology and Ceremonial Behavior: Aspects of Institutionalism," Journal of Economic Issues 11 (1977): 862.

136. Ibid., pp.866-868.

137. T.R. De Gregori, "Power and Illusion in the Marketplace: Institutions and Technology," Journal of Economic Issues 8 (1974): 759-770.

growth, or possibly even development, occurs without there being anything that we could call savings.¹³⁸

Wendell Gordon is also primarily interested in questions of growth and development, and again follows Ayres' instrumentalism and utilises the technology/ceremonialism dichotomy. Technology is seen as the dynamic force while institutions, although changeable, are a "drag" on the process of technical accumulation.¹³⁹ One of the drags that Gordon analyses is the tendency for consumption and other behaviour patterns to be based on custom. Gordon also mentions the small size of certain nations, land tenure systems, lack of appropriate technology and instruction programmes, the prevalence of military dictatorships, inefficient and over large bureaucracies, banking practices, and the misplaced "emphasis on saving" in development plans.¹⁴⁰

On this last point Gordon often seems to argue that while the emphasis on saving is over-stressed, savings are necessary.¹⁴¹ On other occasions he appears to take the argument further

138. T.R. De Gregori, "Prodigality or Parsimony: The False Dilemma in Economic Development Theory," Journal of Economic Issues 7 (1973): 259-266. See also De Gregori, "Foreign Investment and Technological Diffusion: The Case of British Colonial Africa," Journal of Economic Issues 2 (1968): 403-415.

139. W. Gordon, International Trade (New York, 1958), pp.551-554; and W. Gordon, The Political Economy of Latin America (New York, 1965), pp.155-171; see also W. Gordon, Economics From An Institutional Viewpoint (Austin, 1973), passim.

140. W. Gordon, The Political Economy of Latin America, pp.155-171; W. Gordon, International Trade, pp.554-564; W. Gordon, "Capitalism and Technological Adaption in Latin America," Journal of Economic Issues 3 (1969): 66-86; W. Gordon, "Institutionalized Consumption Patterns in Underdeveloped Countries," Journal of Economic Issues 7 (1973): 267-287.

141. W. Gordon, The Political Economy of Latin America, p.230.

stating that "what matters is the real wherewithal to provide real capital," and that

If the country has the labor, the technology, and the raw materials necessary for the production or providing of the capital...there is no intelligent reason why it should be deterred from producing capital merely because of lack of prior, voluntary, personal, monetary saving.¹⁴²

Gordon, on this basis, argues that large inequalities in the distribution of income are not necessary, and that growth may be stimulated by higher levels of consumption rather than by higher levels of savings.¹⁴³

The above examination of the work of Hamilton, Junker, De Gregori, and Gordon, demonstrates that there is a strong contingent of writers following the ideas of Ayres. While their work is most frequently applied to underdeveloped countries, it shares Ayres' instrumentalism, his critique of orthodox price and capital theory, and his dichotomy between the technological and the ceremonial. In this way Ayres provided a vital link between Veblen and these younger writers.

VII Evaluation.

Ayres' work represents the most extensive effort by any institutionalist to formulate a theory of value along instrumentalist lines. Indeed, it is the case that most of his efforts were directed to this end, and, as Coats has noted, Ayres was most persuasive on this general philosophical level.¹⁴⁴ Nevertheless, there are problems with Ayres' philosophy with its

142. Ibid., p.223.

143. Ibid., pp.223-224.

144. A.W. Coats, "Clarence Ayres' Place in the History of American Economics," op.cit., p.37.

monistic nature and emphasis on technology.

As mentioned above several authors have taken exception to Ayres' downplaying of the "ethical ultimacy of the individual."¹⁴⁵ Ayres' attempt to demonstrate that the "technological continuum" is consistent with freedom, security, equality, abundance, and excellence; or in general terms the "life process," depends crucially on his almost utopian view of science and technology fostering a "rationalistic humanism."¹⁴⁶ It is quite clear that Ayres felt that nothing negative could stem from the technological continuum itself, and that the dynamism of technical advance with its requirements of free enquiry, free expression, and the like, would be powerful enough to move the institutional framework toward democracy and freedom rather than away from it. The element of technological determinism in Ayres' thought is most evident in this linkage between the requirements of technology and institutional change, and several commentators have criticised Ayres for it.¹⁴⁷

Ayres' identification of everything good with the technological continuum raises a number of other difficulties, particularly as he utilised such a broad definition of technology. In practice Ayres defined technology as anything that partook of a "developmental" character, but this results in tautology. Instead of demonstrating the progressive nature of

145. See above notes 42 through 45.

146. R. Tilman, "Value Theory, Planning, and Reform: Ayres as Instrumentalist and Utopian," Journal of Economic Issues 8 (1974): 700-701.

147. D. Sekler, Thorstein Veblen and the Institutionalists, pp.68-74; W.J. Samuels, "Technology Vis a Vis Institutions in the JEI," op.cit., pp.876-882.

technology, Ayres simply defines everything he considers progressive as technology. Thus Beethoven's quartets are technology, while, on the other hand, orthodox economics is denied any instrumental standing at all.¹⁴⁸ Ayres' attempts to back up his contentions with historical evidence are cursory in the extreme.

Ayres' view of technology also provides no possibility of further technical change involving risk or having adverse or disruptive effects.¹⁴⁹ Such problems, for Ayres, would be due only to institutional mal-adjustment. What is more, Ayres does not consider that technical change may occur in different directions depending on such things as relative prices. While institutional factors may inhibit technical change, the direction of change and the process of change itself is, in Ayres' work, internal to the tool using system. Samuels, Rostow, and others, have criticised this conception of technological progress.¹⁵⁰

Ayres' treatment of technology leads to a consideration of his definition of institutions, which is as narrow as his

148. W.J. Samuels, op.cit., p.876; W.R. Allen, "Review of Ayres' The Theory of Economic Progress," op.cit., pp.236-238; P.T. Homan, "Review of Ayres' Toward a Reasonable Society," op.cit., p.150; A. Hirsch, "C.E. Ayres and the Classical Economists: A Comment," Journal of Economic Issues 2 (1968): 81-86.

149. J.J. Spencer, "Limits to Growth: Biospheric or Institutional," in Science and Ceremony, pp.115-133; H. Frankel, "Clarence Ayres and the Roots of Economic Progress," in Science and Ceremony, pp.67-74; W.J. Samuels, "Technology Vis a Vis Institutions in the JEI," op.cit., p.879.

150. W.J. Samuels, "Technology Vis a Vis Institutions in the JEI," op.cit., pp.877-880; W. Rostow, "Technology and the Price System," in Science and Ceremony, pp.75-113; D.L. Miller, "The Theory of Economic Progress," Southwestern Social Science Quarterly 25 (1944): 159-177.

definition of technology is broad. Institutions, as Ayres defines them, exclude such organisation devices as are instrumentally efficient. Institutions are therefore defined as the static or backward looking aspects of organisation, which again reduces the analysis to tautology.¹⁵¹ Ayres' thinking also implies that a "de-institutionalised" society is possible, a view that has been criticised by a number of writers.¹⁵²

On the level of his economic analysis problems also arise. Ayres' version of underconsumptionism with its rather uneasy mixture of Keynesian and Hobsonian elements is frequently unclear. At times he appears confused between ex-ante and ex-post quantities,¹⁵³ but most of the difficulties stem from his determination to locate the heart of the problem in the distribution of income, and his assertion that investment is self-financing so that there is no conflict between higher levels of consumption and high rates of investment.¹⁵⁴ The economic problems of scarcity and the allocation of resources between different uses does not enter Ayres' analysis, a factor that has continued to create difficulties among his followers.

Despite these weaknesses, Ayres' work does represent an

151. D.L. Miller, op.cit., pp.170-171.

152. W.J. Samuels, "Technology Vis a Vis Institutions in the JEI," op.cit., p.882; D.L. Miller, op.cit., pp.170-171.

153. See C. Ayres, The Industrial Economy, pp.134-144.

154. C. Grant Ferguson, "Professor Ayres, Current Economics, the Classical Tradition, and Economic Growth," The Southwestern Social Science Quarterly 37 (1956/57): 164-168.

interesting attempt to fully develop an instrumental theory of value on a technological basis; a basis for judgement that does not depend on the transitory influence of certain habits of thought, or on personal biases. At least within the institutionalist movement Ayres' work has had a continuing influence and is still a vital force among younger institutionalist writers.

CHAPTER 10

THE NATURE AND DEVELOPMENT OF INSTITUTIONAL ECONOMICS

The previous chapters provide a close examination of the ideas of the major institutionalist writers and their predecessors. With this background it is now possible to turn to those questions concerning the nature of institutionalist thought, its development, and its relationship with orthodox economics, which were posed in the introduction.

From the chapters above it is clear that institutionalists possess certain common elements in their thinking, while, at the same time, considerable differences also exist between them. Most treatments of institutionalism have tended to concentrate either on the similarities or on the differences, thereby reaching widely divergent views on the coherence of the institutionalist movement. It will be argued here that institutionalists share enough to be considered as a single, although rather loose, movement, but can be divided into subgroups on the basis of certain differences. This requires that both the areas of similarity and the areas of difference be examined.

I Common Elements in Institutional Thought.

Taken as a whole institutionalists do share a number of preconceptions, aims, and ideas, and these common elements are particularly noticeable in two areas; their general approach to the subject of economics, and their view of the market system of economic organisation as inadequate. These two areas of similarity will be dealt with in turn.

The Institutional Approach to Economics.

Institutionalist writers are very obviously concerned with developing an economics that is explicitly directed at dealing with an evolutionary conception of society. Human behaviour, social and economic arrangements, beliefs, values, and systems of thought are taken as being variable and in the process of change, rather than as static, unchanging, or conditioned by natural laws. The keyword here is "process," as, strictly speaking, the institutionalist view of the world does not include any final term to the evolutionary process, and contains no absolutes or ultimates. In practice institutionalists have tended to diverge from this position somewhat, usually as a result of their attempts to find some criterion of judgement, but this problem will be dealt with in more detail below.

For institutionalists, economics is the attempt to understand the economic aspects of this process, and any part of the process that touches on economic phenomena is a legitimate part of the subject matter of economics. Economics is therefore defined broadly as the investigation of the nature and working of the present arrangements through which economic activities are carried on, how these arrangements came to be, and how they may change, or be changed, in the future. This involves

institutionalists in an effort to understand the dynamic interrelationships between such things such as human behaviour, the institutional structure, the distribution of power, technical change, and economic conditions; a task of considerable complexity.

In their approach institutionalists have often stressed the need for "realism," a term which seems to have more than one meaning in the institutionalist literature. It can mean that theory should be based on more "realistic" assumptions, particularly in the case of assumptions concerning human behaviour. Institutionalists argue that behaviour is, in large part, a product of the institutional framework; a result of laws, habits, customs, and social conditioning. This implies that economics cannot be divorced from a consideration of the institutional structure, that human behaviour is changeable, and may not be entirely "rational." Economics must, therefore, be based on a behaviouristic psychology; on the study of "what men do."

Realism can also mean a rejection of abstract a priori theorising and the idea that universal laws of economic behaviour are possible. Institutionalists have an emphasis on the "matter of fact," on historical and empirical research, on providing a firm factual "foundation" for theorising, on dealing with the system as it "actually" operates, and often seem to have a view of scientific methodology as inductive in nature. There is a tendency to see the objective of economics as that of providing a "generalized description," "analytic description," "life history," or "understanding" of the system and its dynamic. While this notion of the nature of economics does by no means

exclude the use of theory, and many institutionalists have stated their goal as a theory of the economic process, there is a reluctance to engage in formal model building, or in the testing of specific predictions, as that is usually understood.

Institutionalism is, however, more than an attachment to the ideas of process, behaviourism, and "realism." A vital part of the institutionalist philosophy and approach to economics is taken from John Dewey's instrumental version of pragmatism, and a full understanding of the institutionalist position depends on a knowledge of Dewey's work.

It is true that Veblen was not heavily influenced by Dewey, but all later institutionalists seem to have adopted a number of his ideas. That Dewey was so influential among institutionalists is understandable given that his system of thought is also based on the idea of process and on a behaviouristic social psychology. Dewey himself was influenced by Veblen, but Dewey's work provides an epistemological underpinning for institutionalism far superior to that found in Veblen. In particular it is consistent with an explicit commitment to reform, and a social psychology that does not depend on the existence of instincts.

Dewey's emphasis on problem-solving, his view of science as instrumental and "experimental," his explicit linking of the positive and the normative, and his faith in the power of science to find solutions to social problems and create consensus, are all clearly visible in institutionalist writings since Veblen. Dewey's ideas concerning the instrumental and experimental nature of science are often to be found combined with the notion that economics should aim at developing generalisations concerning the economic process, but Dewey's work removed much of

the concern with remote historical origins evident in historical school writings and in Veblen, and also emphasised the finding of solutions to immediate problems rather than the making of long term prophecies concerning the future trend of events. Some institutionalists occasionally verge on such prophecies, but for the most part they are much more cautious about making long term predictions than the historicists, the evolutionary sociologists, or the early Veblen.

On the other hand, Dewey's writings on scientific method reinforced the tendency of institutionalists to downplay a priori methods. Although Dewey advocated an experimental "testing" of theories, an element absent from the historicists or Veblen, this "testing" consists of little more than the "trying out" of policy proposals, and the observation of "consequences."

Institutionalists, then, can be recognised by their attachment to the idea of "process;" their view that economics must be realistic, in the sense of utilising a behaviourist psychology, recognising the importance of institutions, and basing theories on a factual foundation; and by their use of an instrumental, and pragmatic view of the nature of science.

The Contemporary Economic Order and Its Weaknesses.

Institutionalists frequently guide their efforts to understand the nature of the economic process by addressing themselves to the questions of whether or not present economic arrangements are instrumentally efficient, and if not, why not.

Through their observation of the workings of the economic system in practice, institutionalists have reached the conclusion that the system leaves much to be desired. They have paid particularly close attention to such problems as economic in-

stability and unemployment, monopoly power, and the distribution of income, although many other problems have been identified, such as low health and safety standards, underdevelopment, pollution, conflict of economic interests both nationally and internationally, financial manipulation, the "waste" of resources involved in competitive salesmanship, competitive research, consumption choices made on the basis of fashion, snobbery, or emulation, and in the restrictions on the free flow of information and technical advance.

When the institutionalist turns to the detailed investigation of these problems and to the question of why they arise the argument centres on the idea that it is the system of organisation, or institutional framework, which is inadequate. Within the context of the industrialised nations, this amounts to the proposition that it is the system of decentralised decision making, the competitive pursuit of gain, and the distribution of income and power that this system generates, that is somehow at fault. In other words the system that has evolved results in the instrumentalities of the system (resources, technology, productive potential, law, government, education, knowledge) being utilised or controlled in ways that have adverse consequences. In the case of certain industries, or, more commonly, with underdeveloped nations, other customary modes of behaviour and organisation may also be found at fault.

In an important respect the institutionalist is anti-free market, at least as applied to modern circumstances. For the institutionalist an unregulated market system does not ensure the social interest will be served, does not necessarily generate high and stable levels of output and employment, does not ensure

resources are utilised productively, and does not necessarily generate high rates of economic growth. The basic argument is, as Walton Hamilton put it, that "the laws of competition are not so nicely articulated" as is sometimes supposed. Institutionalists see the free market system as, at best, highly imperfect, and, at worst, positively harmful.

Examples of this line of reasoning are abundant. In the analysis of imperfect competition the institutionalist argues that, given certain technical and legal conditions, a competitive system will lead directly to attempts to gain market power. This leads to restriction of output, the raising of output prices, the bringing of downward pressure on input prices, advertising, competitive salesmanship, competitive research, financial manipulations, and so on. As imperfect competition is the usual case, distribution becomes largely a matter of market power, not of productivities.

This line of argument is sometimes carried to the point where it is argued that, with modern large scale integrated industry, markets do not control at all; rather they are controlled in the interests of those who gain profits, or, in the case of Galbraith, in the interests of a technocracy.

Economic instability is also linked to a type of market failure; the failure to coordinate the decisions of key economic groups in a way that leads to high and stable levels of output and employment. Much emphasis is put on business expectations as a destabilising influence, but this is usually combined with other factors such as the behaviour of bankers, leads and lags in the price system, inflexible prices due to imperfect competition, the distribution of income, or the rate of personal

or corporate savings.

The system is also seen as one in which there is considerable pressure to cut costs even at the expense of the health, safety, or welfare of workers or customers. In general the system of competitive gain is blamed for many kinds of anti-social behaviour.

The market system does not take account of external costs, such as environmental damage. Several institutionalists have treated unemployment as a kind of external cost. Which costs are taken into account depends on the structure of rights which some institutionalists argue is determined in part by the system of power relationships, and may therefore vary from the structure of rights that would conform to the public interest.

Examples could be multiplied but the same basic points are repeated; the market system has inherent weaknesses, is unstable and fails in many important respects to properly control or guide economic activity. What is more, virtually every institutionalist would agree that market prices provide no indication of social welfare. Answers are not to be found by attempting to impose the unattainable ideal of perfect competition, but by a series of pragmatic adjustments which usually involve government action of some kind. These actions are not to be based on any view of an ideal state, but simply on the desire to find "workable" solutions to immediate problems.

Pragmatic adjustments may not arise spontaneously from the economic process. Although there is some disagreement over the relative importance of such factors as technology, economic interests, power structures, and the law, in the economic process, there does appear to be agreement that within the process new

conditions will continue to arise that may create difficulties or problems. These difficulties may be the result of a "lag" in the adjustment of institutions or habitual patterns of thought and action to the new conditions, or to the power of established interests, or they may come about out of ignorance or prejudice. Any of these things may rule out or hinder the appropriate pragmatic response to the difficulty. Pragmatic adjustments must therefore be encouraged or imposed.

As mentioned above, it is part of the institutionalist creed that intelligence and reason can overcome problems and any resistance to change and create consensus. Of course, as the system is undergoing constant change the process of pragmatic adjustment should never cease. In the institutionalist mind there is no system of economic organisation that will be right for all time. As new problems arise new solutions and new instruments must be devised to meet the case. No system of organisation has any intrinsic merit. It is only pragmatically, by its consequences, that a system can be judged. For the institutionalist, orthodox economics is insufficiently pragmatic in nature.

II Areas of Disagreement in Institutional Thought.

There are several important areas of difference between institutionalists which can be found in their method, philosophy, and social psychology, and in their more specific ideas concerning the nature and weaknesses of the economic system.

Method, Philosophy and Social Psychology.

The major differences in method, philosophy, and social psychology arise from varying interpretations of what is involved in the attempt to gain "realism," the different aspects of

pragmatism that are emphasised, the difficulties that surround the pragmatic theory of value, and the particular version of "modern psychology" which is utilised.

Veblen and Ayres appear to define realism as involving the use of the concept of process and the rejection of any absolutes or ultimates. Both also see their work as firmly based on factual and historical investigation, but in their writings they tend to use such data only as illustrative material. Their major concern is with developing broad generalisations concerning the nature of the economic process, and in providing a technical theory of value which is seen as independent of custom or belief. In Ayres' case this is presented as an attempt to answer the question of whether or not "we are going on the rocks." Although Veblen cannot be described as a pragmatist, and was not particularly interested in reform, his concept of workmanship has obvious links with Ayres' instrumentalism. Veblen, however, founded the idea of workmanship on an instinct, while Ayres adopted a version of behaviourism. Nevertheless, there is a similarity in their social psychologies in that both make use of the idea that technical conditions or requirements tend to bring about certain patterns of thought and action. In other words both share a degree of technological determinism.

Hamilton, and others such as Hoxie, on the other hand, utilise a more particularist interpretation of the problem-centered nature of pragmatic thought, and argue that generalisations concerning the nature of the whole economic process should be built up through detailed investigations of particular problem areas. This approach Hamilton names "organic particularism." Admittedly, neither writer ever developed any

rounded picture of the operation of the whole process, but it is interesting to note that Hoxie came to reject Veblen's early technical determinism, and Hamilton paid considerably more attention to the role of the courts than did Veblen or Ayres. Hamilton is also less deterministic than Veblen, but he appears confused over the problem of finding a criterion of value and standard of judgement. At times he refers to the legal standard of reasonable conduct, but at other times he uses a set of "dominant moral requirements" one of which, free play for the "dynamic urges of society," translates as technical change and innovation.

Mitchell clearly regarded "realism" as a matter of quantitative research, his belief being that hypotheses and theories would grow out of the attempt to locate and study problems in a quantitative fashion. Mitchell can be characterised as primarily interested in the first two of Dewey's five stages in the formation of scientific knowledge. Mitchell's attachment to quantitative investigation also affects his social psychology and standard of value. Although he started with instinct theory and later adopted behaviourism, Mitchell came to the position that human behaviour could only be understood after more quantitative research. Mitchell associated welfare with more goods but he tended to argue that goods should be valued according to an objective standard of social welfare to be set up through quantitative research. Conflicts over policy goals, he felt, would be mitigated by further research and knowledge, but he also advocated an experimental approach to policy making.

Tugwell also moved from instinct theory to behaviourism and argued that further research into human behaviour was required.

Tugwell's behaviourism is, however, somewhat confused and at times he seems to suggest that man is naturally cooperative. Tugwell follows Dewey's view of science as "experimentalism," and his standard of judgement consists of a set of "industrial ideals" which emphasise the importance of continued technical advance.

Commons can be seen as moving from the investigation of particular problems to a concern with developing a broad analytical framework and experimental policy making. Commons' version of behaviourism and his interpretation of the pragmatic standard of judgement do, however, differ in some respects from those used by other institutionalists. While Commons agrees that custom and habit are important determinants of behaviour he seems to regard customs, which for Commons includes common law, as much more open to purposeful change than other institutionalists. Commons' work gives a role to human will and purpose that is usually lacking in that of other institutionalists. Commons sums up the "whole" in the principle of "willingness," a conception that is carried through to his standard of judgement which is expressed in terms of the resolution of conflict, reasonableness, and workable mutuality, rather than in terms of instrumental necessity. Of course, Commons' definition of the reasonable includes instrumental considerations, but it also allows for a degree of compromise to attain workable solutions, a factor that is rarely included by other institutionalists, some of whom tend to regard any interest opposed to the technically best solution as unreasonable and hardly worthy of serious concern.

There are, then, important differences in the methodology,

value theory, and social psychology used by various institutionalists. Although all may be said to be empiricists, writers such as Hoxie, Hamilton, Mitchell, and, in his early work, Commons, take the emphasis on fact and empirical investigation much further than Veblen, Ayres, or Tugwell.

In social psychology Veblen is the only writer who did not abandon instinct theory. Veblen's work also, at times, postulates a direct link between technological requirements and habits of thought and action, an idea that reappears in Ayres' writings, but not in the work of other institutionalists. Commons displays a difference from other writers in the role he gives to human will and purpose.

Value theories also vary, Veblen's being implied rather explicit and contained in his instinct of workmanship. This idea of value being attached to technical and industrial progress also appears in Ayres' work as a version of Dewey's instrumentalism, and similar ideas can be located in Tugwell, and to a lesser extent in Mitchell. Commons' locates value in the concept of reasonableness, a concept that combines the technical with the workable. Hamilton seems to jump between a purely technical criterion and one that also includes the idea of reasonableness.

These differences have considerable effects on how the economic process is conceived, which elements are considered the most important, and on ideas concerning the source of economic problems and their solution.

The Economic Process and its Problems.

The majority of the writers considered here tend to follow the Veblenian conception of the economic process as a matter of

a dichotomy between the technical and the institutional. In Veblen's work this has many aspects, for instance industry versus business, the industrial versus the pecuniary, and workmanship versus predatory emulation. Similar ideas can be found in Hamilton as technical processes versus business organisation, in Mitchell and Tugwell as the making of goods versus the making of money, and in Ayres as the instrumental versus the ceremonial.

In this conception of economic processes it is technical advance that is seen as the progressive factor, providing the potential for "easier circumstances." In terms of this progressive movement difficulties arise principally because of certain institutional forms which hinder the advance of technology, or in some way or another prevent the full and efficient use of resources. Technology and industrial production are seen as the instrument of improvement, and it is therefore the continuation of technological change and the full utilisation of industrial technique and equipment in a socially advantageous fashion that is the primary goal of these institutionalists.

Not all of the writers mentioned above forward this view in quite the same way. For Mitchell, the broader economic process is not in the forefront of his analysis, although he leaves no doubt that economic fluctuations are, at base, the product of the institutions of a money economy. The technology/institutions dichotomy is put forward with most strength by Veblen and Ayres. Ayres does, at times, use a very broad definition of technology as anything that partakes of an instrumental character, but there can be little doubt that his main emphasis

is on the progressive nature of scientific knowledge and technology as more usually understood.

Commons' work provides a different and more complex picture, and although the differences are sometimes only of definition and emphasis, there are substantive points at issue. The technology/institutions dichotomy is visible in Commons' work, particularly in his part-principles of efficiency and scarcity, but the whole is made up of other part-principles as well (sovereignty, working rules, and futurity) and is summed up in the principle of willingness. For Commons the economic process is not simply one of technology as against institutions, but is one of changing conditions leading to new economic interests, conflicts of interest, and problems, which, for "progress" to occur must be resolved in a continuing adjustment to "workable mutuality." Progress is therefore continued problem solving in the sense of providing for the resolution of conflicts and reasonable adjustment. The idea of technological efficiency does not dominate Commons' work to the same extent as it does other institutionalist writings. What is important to Commons is economic interests, their expression, and their resolution. In this process the legal system plays a key role.

Commons also views the institutional structure as more flexible and potentially creative than most other institutionalists. He argues that a change in conditions which creates a new interest will tend to result in new institutional forms. An institution for Commons is collective action in control, liberation, and expansion, of individual action, and voluntary collective action is given a role in Commons' work that is

entirely absent from most other institutionalist's work. Again, part of this difference is definitional. For instance, what for Commons are new institutional forms are for Ayres instrumentalities, not institutions; but Commons' approach avoids the tautology evident in Ayres' definition, and does give a larger part to voluntary collective action.

Thus, while most institutionalists can agree that problems arise from a lack of adjustment or from the power of vested interests, there are differences in the treatment of certain problems and in the proposed solutions. The treatment of unions provides a good example. Veblen and some others regard unions of the business union type as simply another expression of pecuniary behaviour, an attempt to gain monopoly power, which may also hinder technical efficiency. Commons regards unions as collective action to protect the interests of workers, a source of countervailing power to balance the power of employers, and sees in collective bargaining the beginnings of an "industrial government" capable of the control of business practices without very much in the way of direct government involvement. Another interesting difference is Commons' relative lack of concern over issues such as advertising, and the basis of consumption choices. Commons' framework does not provide the basis for criticism of those things that the more technical approach of other institutionalists does. On the other hand, Commons' displays great concern over the "ethical plane of competition," which is absent from the work of most other institutionalists.

The most important difference is, perhaps, to be found in the attitude towards government intervention and most particularly toward government planning of the economy. In

Commons' work the role of government is to provide encouragement for the formation of voluntary collectives expressing legitimate economic interests, to provide for the reduction of conflicts, to provide agencies of control where no voluntary collectives can arise, and to regulate the rules of the game through legislation affecting the rights and responsibilities of economic actors. Other institutionalists, particularly Mitchell, Tugwell, Gruchy, Galbraith, and, to a smaller extent, Ayres, give government a much larger role in economic management. With their view of the relative inability of the institutional framework to adjust by itself and their emphasis on technical requirements, they tend toward an espousal of economic planning. Commons, it should be noted, opposed economic planning on the grounds that it may reduce the flexibility of the system.

III Groups of Institutionalists.

From the above it is now possible to argue that while certain aspects of institutionalist thought are common to all institutionalists, there are other aspects which vary among institutionalist writers. Veblen lacks any explicit reformism and utilises an instinct psychology, while other institutionalists are pragmatists and behaviourists. Ayres and Veblen use an element of technological determinism lacking from the work of others. Hamilton, Hoxie, and Mitchell follow a problem-centered method, while Veblen, Ayres, and Tugwell, are more interested in broad generalisations about the nature of the economic process than in detailed empirical investigation of particular problems. Most institutionalists utilise a value theory based on a technological definition of the instrumentally necessary, while Commons follows a value theory based on reasonableness.

It may therefore be justifiable to view institutionalism as a broad tradition of thought held together by the attachment to the common elements outlined above, but divisible into a number of different groups. First, and perhaps most obviously, there is the group which formed around J.R. Commons. This group can be identified by its interest in labour problems, the relationship between law and economics, and its acceptance of Commons' views on the role of voluntary collectives. There is little reference made to technological factors, but considerable stress is placed on the role of law, on the structure of power, and the determinants of government action. The theory of value utilised is instrumental, but based on Commons' idea of reasonableness rather than on the more technological versions of Veblen or Ayres. There is also a strong regional element in this group, as many of its members are associated with the University of Wisconsin. Writers such as E.E. Witte, S. Perlman, S. Slichter, and most recently W. Samuels could be included in this group, and its roots can be traced back to R.T. Ely, and H.C. Adams.

Second, there is the group that formed around Ayres at the University of Texas and other institutions in the south western United States. As Ayres has particularly close links with Veblen, there is some justification for calling this group the Veblen/Ayres wing of institutionalism. This group heavily emphasises technology as the progressive factor, tends to be more deterministic than those of the Commons' group, uses a technological version of instrumentalism, and gives government a larger role in the process of adjustment than the Commons' group. This group would include Ayres, D. Hamilton, De Gregori,

W. Gordon, and could be expanded to include others of similar inclination such as Galbraith, Tugwell, and Gruchy. For this group it is Veblen who is the founding father of institutionalism.

Third, there are those who followed a more descriptive case study approach and did relatively little in terms of providing any generalisations concerning the nature of the economic process. This group could be sub-divided into those of a quantitative bent, such as Mitchell, and F.C. Mills, and those who took a more descriptive approach such as Hamilton and Hoxie among others. These writers share a common element with the Veblen/Ayres tradition in the sense that technology is viewed as progressive and the technology/institutions dichotomy is often visible in the background of their studies.

This taxonomy is not inclusive of all institutionalist writers; as with any tradition of thought that lays little emphasis on logical rigor and the empirical testing of specific predictions, there are bound to be individuals who develop their own particular syntheses. Nevertheless, most important institutionalist writers can be included in the three categories outlined above, and it should be noted that the Commons' tradition and the Veblen/Ayres' tradition are still very active today. Indeed the conflicts between these two groups must be grasped before a full understanding can be reached of some of the literature on institutionalism. For instance, Allan Gruchy's work, attempts to forward what has been called here the Veblen/Ayres' approach and to classify writers such as Witte and Samuels as "deviant institutionalists."

IV Is There a Neo-Institutionalism?

As noted in the chapter on Ayres the term neo-institutionalism has been used in a variety of ways. Most frequently it is used to refer to Ayres and his immediate followers, although Allan Gruchy has utilised the term in a different fashion, including Ayres, Galbraith, Myrdal, and Colm as neo-institutionalists. The first definition can only be maintained if institutionalism is defined as Veblenism, while Gruchy's use of the term is entirely puzzling. Gruchy implies a "mainstream" institutionalism linked to the Veblenian concept of process, although exactly why he calls the more recent exponents of this tradition neo-institutionalists is left unclear. As indicated above his stated criteria hardly seem to fit the case.

The term neo-institutionalism appears to have become the property of those in the Veblen/Ayres tradition, and as such it is sometimes used as part of an attempt to deny legitimacy to the proponents of other sub-groups within institutionalism, most obviously writers in the Commons' tradition. Nevertheless, if institutionalism were closely identified with Commons' concept of the economic process we could, perhaps, call Warren Samuels a neo-institutionalist.¹ Thus, we could identify a series of neo-institutionalist groups corresponding to the groups of institutionalists identified earlier. However, as long as institutionalism is defined as consisting of those who

1. On the grounds that he has modified Commons' position by insisting on a clear distinction between the positive and the normative, and does not utilise Commons' work on types of transactions.

accept the common elements outlined above there does not appear to be a particularly good case for using the term at all.

V Institutionalism and Orthodox Economics.

The attitude of institutionalist economists to orthodox economic theory is also an area of some confusion. Some writers claim that institutionalism is complementary to orthodox economics, while others argue that institutionalism competes with the orthodox tradition.

Institutionalists rarely attack the internal logical consistency of orthodox economics. They do not argue that, for instance, the orthodox theory of perfect competition, given its assumptions, is incorrect. In this way some institutionalists have argued that institutionalism does not seek to replace orthodox theory, at least as far as it goes, but seeks to move beyond it and consider issues that the orthodox tradition usually regards as beyond its scope.² For instance, when the orthodox economist argues that the market allocates resources, the institutionalist would reply that to understand fully the process of allocation it is necessary to go beyond the market and investigate the forces that shape the pattern of effective demand and the technological and institutional conditions of production, in other words the underlying institutional, technical, and legal factors. This comes down, very largely, to a matter of the question that is being asked. Is it how resources

2. See for instance A. Gruchy, Contemporary Economic Thought, pp.299-310.

are allocated given a particular institutional, legal, and power structure, and a given level of technological knowledge, or is it how the institutional, legal, and power structure, affects and is affected by technical and economic conditions? The two questions are certainly not mutually exclusive, and both are of obvious importance.

If this were all then the conclusion would be that institutionalism and orthodox economics do not compete. But institutionalists have other criticisms of the orthodox tradition which do constitute a direct attack on orthodox methodology and epistemology. On these issues institutionalism can only be seen as in competition with orthodox economics.

As noted above institutionalists follow a methodology opposed to abstract a priori model building, and adopt a pragmatic and instrumental theory of value and social welfare. Orthodox economics is generally identified with a deductive methodology, locates value in the willingness to pay of individual consumers or users, and defines a maximum of social welfare as a position where no one can be made subjectively better off without making someone else subjectively worse off.

The institutionalist critique of orthodox economics divides into two parts. The first concentrates on what institutionalists see as the unreality of the orthodox models, and the second concentrates on the normative bias which institutionalists maintain exists within orthodox economics.

On the first issue the arguments appear to be based on the a priori nature of orthodox theorising. For many institutionalists the orthodox tradition has placed more emphasis on

logical consistency than on realism or relevance. Their techniques have resulted in a highly abstract theoretical structure that has the theory of perfect competition as its core, a theory that, for institutionalists, is neither an accurate description of economic reality, nor a sound basis for policy predictions. Although the institutionalist does not attack the logical consistency of orthodox economics, the frequent references to the need to reformulate economics and the derogatory references to "abstraction" and the use of "isolated assumptions," make it clear that institutionalists seek to do more than simply extend orthodox analysis. As against the abstraction and unreality of the orthodoxy institutionalists propose their own pragmatic methodology with its emphasis on fact, on solving practical problems, and on experimentalism.

The second issue is pursued most obviously by Veblen and Ayres, but it is also implied in the work of virtually all other institutionalists, as none accepts the orthodox value theory or definition of social welfare. A great deal of this argument concerns itself with the predominance given to the idea of the rational, self-interested, individual in orthodox theory. Institutionalists argue that this amounts to accepting a certain absolute or metaphysical conception of human nature, rather than one based on the investigations of "modern psychology." The pattern of individual wants is taken as given and as the end toward which economic activity should be directed. Orthodox theory assumes "the ethical ultimacy of the individual," and around this constructs a normatively biased defence of free markets. Institutionalists argue that orthodox economics tends

to a position where a free market system is justified on metaphysical grounds, giving it some value in itself, rather than on the basis of a study of the objective consequences of the system. Institutionalists tend to see in orthodox theory an inbuilt bias towards laissez-faire, or, at least, a bias against any policy which would alter the fundamentals of the system. Orthodoxy plays an apologetic role, and, in the eyes of many institutionalists, is itself a major barrier to the acceptance of pragmatic adjustments, something which must be removed or substantially altered in order for further "progress" to occur.

It must, however, be pointed out that the institutionalist view of orthodoxy as unrealistic, irrelevant, and normatively biased is overdrawn. Much the same can be said for their opinion of institutionalism as more realistic, relevant and objective than the orthodox tradition. This is not to say that orthodox theory is without methodological problems or normative biases,³ but the institutionalist tends to overlook the contributions to positive analysis made by orthodox writers and the fact that institutionalism also contains methodological difficulties and normative biases. Indeed, the institutionalist critic of orthodoxy seems to find it difficult to accept that orthodox economists do not necessarily regard their theories as accurate descriptions of reality, apply their abstract theories with considerable caution, are concerned with the predictive

3. See for instance T.W. Hutchison, Knowledge and Ignorance in Economics (Chicago, 1977).

power of their theories, and most often take an entirely pragmatic attitude to government intervention. It is not surprising that in the institutionalist literature orthodox economics is usually presented as if nothing had changed since the clerical school. Institutionalists appear unwilling to recognise that opposition to any particular expansion of government intervention or "social control" may be due to a close examination of the inefficiencies and adverse consequences that may accompany such intervention, rather than an overriding philosophical commitment to liberal individualism. Nevertheless, despite the overstatements in the institutionalist critique of orthodoxy it is clear that there are fundamental conflicts between the two traditions of thought in the areas of methodology and value theory.

VI The Development and Prospects of Institutionalism.

Institutionalism developed out of the impact of evolutionism, historicism, and pragmatism on American thought around the turn of the century. Although the influence of "new school" writers is clearly evident, particularly in the work of J.R. Commons, it is a mistake to regard institutionalism as simply historicism in American dress. Such a view ignores the importance of pragmatism, the influence of evolutionary sociologists, such as W.G. Sumner, the nationalist school, and the dogmatism evident in many of the orthodox works of the period.

Institutionalism grew rapidly and reached a peak in the 1920's and 1930's, but its popularity cannot be ascribed to any great theoretical achievements. The initial success of institutionalism can only be explained by the fact that it was in tune with the intellectual temper of the time and held out the

promise of new advances. In other words, it appeared to contain a research programme with new and exciting possibilities. Institutionalism, however, failed to live up to its early promise, and with the developments in the orthodox tradition, its importance began to decline. Its recent resurgence can be seen more as a reaction to a perceived failure on the part of orthodox theory to cope with contemporary economic problems, and a disaffection with high levels of abstraction; the "unreality" of much of orthodox theorising. While institutionalism has little to offer in the way of usable alternatives, its appeals to realism, relevance, and problem solving, may be attractive.

Institutionalism has clearly failed to develop a single, commonly held, theoretical framework, and as argued above institutionalism can best be understood as a number of groups linked together by a general core of ideas; but a general core that is too vague to provide any firm direction, or tight theoretical unity. Even within those groups where some progress has been made toward developing general theoretical ideas the results have not been entirely satisfactory. J.R. Commons' general framework is so convoluted as to be virtually useless and only a few elements of it have been taken over and developed by other members of the group. To be fair it must be admitted that within this group advances have been made in the area of trade union theory and a great deal of interesting discussion produced on the determinants of government action and the role of law. The Veblen/Ayres group shows a history of theoretical development in the areas of cycles and depressions and, to a lesser extent, in the field of corporate behaviour, but much of

this work has been superceded by Keynesian economics, or has been developed in a more satisfactory form by orthodox economists. On a more general level the Veblen/Ayres framework can be criticised for its heavy technological bias, its simplistic dichotomy between institutions and technology, its lack of a convincing theory of technical change, and the normative elements embedded in its view of technological development.

This lack of success may be traced directly to the extremely weak methodological positions adopted by institutionalists. They tend to downgrade the importance of deduction and the pursuit of logical rigor, and correspondingly emphasise the role of observation and "experiment." Of course, institutionalists, even Mitchell, never abandon theory altogether; obviously some frame of reference is required to select data, but there is a tendency to regard scientific method as, in some sense, "inductive." Even with such writers as Veblen and Ayres there is a stress on the need for a factual or empirical "foundation" for theorising. As Popper has argued the idea of science as inductive is a myth; theories cannot be inferred from observation alone. What is more, observations cannot validate a theory, they can only function "as tests of our conjectures or hypotheses, i.e. as attempted refutations."⁴

Dewey's ideas of science as instrumental and of conducting "experiments" with policy in order to observe the consequences are also inadequate. On instrumentalism Popper argues that:

The point is that by neglecting falsification, and

4. K. Popper, Conjectures and Refutations, pp.52-53.

stressing application, instrumentalism proves
 / to be/ obscuratist...For it is only in
 searching for refutations that science can
 hope to learn and advance. It is only in con-
 sidering how its various theories stand up to
 tests that it can distinguish between better
 and worse theories and so find a criterion of
 progress.⁵

The instrumental criterion can never falsify a theory, it can only distinguish between applications that do or do not work under prevailing conditions. What institutionalists ignore is the vital role of rigorous deductive theorising in the process of scientific advance:

only by purely deductive reasoning is it possible for us to discover what our theories imply, and thus to criticize them effectively. Criticism...is an attempt to find the weak spots in a theory, and these, as a rule, can be found only in the more remote logical consequences which can be derived from it. It is here that purely logical reasoning plays an important part in science.⁶

Some institutionalists, notably Warren Samuels, would agree that institutionalism has failed to develop any convincing general theoretical framework, but Samuels' own proposals to build a new general theory on the basis of further research and empirical investigation into certain key areas seems little more than a repetition of the methodological errors of his predecessors.

The history of institutionalism, then, is the history of a tradition of thought that has failed to develop because of its internal methodological and epistemological weaknesses.

5. Ibid., p.113.

6. Ibid., p.51.

Despite the undoubted interest and importance of many of the issues toward which institutionalists have directed attention it is difficult not to conclude that as long as institutionalists retain their present methodological positions, and their linking of science and values, they will remain unable to develop a satisfactory theoretical framework and will continue to provide little more than the occasional insight. What is more, there is little evidence that institutionalist investigations and criticisms of orthodox economics have had any direct or very significant influence on the mainstream of economic thought. Although institutionalists have often been among the first to investigate new problem areas, they have never been alone in such work, and it is the orthodox investigators who have developed the more systematic treatments. On issues such as imperfect competition, externalities, unemployment, and even economic growth, institutionalists have provided little of a satisfactory nature. What they have provided has frequently been logically faulty, empirically untested or untestable, and normatively biased.

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