THE CONCEPT OF ECONOMIC PLANNING
IN INSTITUTIONAL ECONOMICS

DISSERTATION
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This study is an attempt to show that economic planning is the characteristic which unifies the many and oftentimes disparate writings of institutional economists. There will be no attempt to include all economists who might be considered as institutionalists. Rather, attention will be centered on six of the best known American institutionalists—Clarence E. Ayres, John M. Clark, John R. Commons, Walton Hamilton, Wesley C. Mitchell, and Rexford G. Tugwell.

These six economists devoted the major portion of their academic careers to the teaching and practicing of economics, but none kept within any traditionally prescribed limits. In their teaching careers, they specialized in many other fields before turning to economics, including medieval history, sociology, philosophy, and law. All led quite active lives in non-academic activities, especially in various governmental commissions, and all were prolific writers. They were distinguished teachers, writers, and active practitioners in the field of economics, and honored as such, both by their fellow economists, and by other social scientists. Thus Commons was elected to the presidency of the American Economic Association, the National Consumers League, and the National Monetary Association; Mitchell also served as president of the American Economic Association, the American Statistical Society, and the Econometric Society; Clark likewise served as president of the American Economic Association and Ayres as president of the Southwestern Science Association. Both Ayres and Clark served on the editorial board of the American Economic Review. In addition to these many positions of honor, they held many important positions of trust. Tugwell, for example, served as Gover-
nor of Puerto Rico for five years, and all six held many important
posts as advisors and consultants to various governmental commis-
sions. A more detailed biographical summary of these six economists
is to be found in Appendix A at the end of this study.

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CHAPTER I

WHAT IS INSTITUTIONAL ECONOMICS

Introduction

This study is an attempt to show the unifying characteristics of a seemingly heterogeneous and diverse group of economists who appear to many to have no central theme except that they are commonly labeled as institutionalists.\(^1\) Or as Professor Paul Homan put it:

The numerous proponents of the institutional approach to economics differ so markedly in their views concerning the purpose, content and methodology of institutional economics and the bonds of spiritual unity among them, engaged as they are in diverse and vaguely related tasks, are so intangible that the use of the term school is justified only if the loosest meaning is attached to it.\(^2\)

It is the thesis of this study, however, that there is one characteristic which all these economists share: an effort to convert economics into a tool for the conscious control, improvement, and reform of the economic system; and further, that this concern for economic planning and reform is not fortuitous, but is the logical result of their common views and assumptions on various aspects of economics and related social sciences. This study, then, is in direct contrast to the position taken by Homan when he said that

An institutional economics differentiated from other economics by discoverable criteria, is largely an intellectual fiction, substantially devoid of content.

\(^1\) This group of economists has also been variously labeled as "genetic," "evolutionary," "social," "collective," and "holistic." Since the term "institutional" is probably more widely understood and certainly more widely used, we will confine our labeling to it.

Fifteen years ago it was a faith, and to this faith I assign important historical consequences. The faith was that an adequate organon of economic thought could be achieved by the accumulation of data and analysis of it in terms of an evolutionary process.³

Professor Homan goes on to add that while he would not deny the importance of the institutionalists, "they have not created an institutional economics."

The thesis presented here is that Professor Homan, and others who hold similar views, are quite wrong in such an appraisal of institutional economics. In fact, the view advanced above would more closely define the German Historical School than it would institutionalism. But to hold that the institutionalists "have not created an institutional economics. .. differentiated from other economics by discoverable criteria" is to misunderstand what institutional economics is and what it has attempted to do. Part of this misunderstanding stems from a quite common attempt to take Thorstein Veblen's famous article, "Why is Economics Not an Evolutionary Science?", ⁴ as the cornerstone of institutionalism. While the concept of evolution plays an important role in their thinking (and which will be examined in greater detail in a later chapter), institutionalism is much more than the mere "accumulation of data and analysis of it in terms of an evolutionary process."

It is the purpose of this study to isolate and define the unifying characteristics which do justify the use of the term "school."

⁴QJE, July, 1898; reprinted in The Place of Science in Modern Civilization (New York: B. W. Huebsch, 1919) and also in The Portable Veblen (New York: Viking, 1948).
Scope of the Study

This study is to be an intensive examination of the writings of several economists who are generally regarded as institutionalists. Almost exclusive reliance will be placed upon the writings of these men, rather than upon what others have said about them. Many notable and worthwhile studies of these men have been made, treating them, however, as individuals. It is the objective of this study to show that a high degree of unity exists among their writings on several major points, centering in the need for economic planning; this study will therefore attempt to tie these threads together into a whole cloth.

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5. Two important exceptions to this are John S. Gamsb, Beyond Supply and Demand (New York: Columbia University Press, 1946), and David Hamilton, Newtonian Classicism and Darwinian Institutionalism (Albuquerque: University of New Mexico Press, 1958). In his work, Gamsb attempts also to find the "genuinely identifying badge of institutionalism." He contends that "what seemed to hold Veblen and his various followers together is an unrecognized premise rather than an overtly acknowledged principle.... That premise is the one of coercion in economic affairs." (pp. 11-12.) While Gamsb is quite correct in detecting this premise in the work of the institutionalists, this premise is hardly the major unifying characteristic of a different school of economics. Another way of recognizing the existence of economic coercion is to deny that there is free competition and equal opportunity. This of course is not a new charge to be levelled at the American economy. As we will see later in this study, the recognition of economic coercion is indeed an important tenet in the writings of these economists. But it is not the major basis for finding unity in their various and diverse writings. It is merely one of the premises which leads to their central concern for economic planning and reform. This same criticism would also have to be applied to Professor Hamilton who contends that the major unifying characteristic of institutionalism is its emphasis upon change and evolution in the economic system. This too is an important attribute of institutional economics, and it could safely be said that it, more than their concern for economic coercion, differentiates institutionalism from other branches or schools of economics. The thesis presented here, however, is that the institutionalists having adopted the view which Hamilton so ably presents, went a step further, and argued that economic change is subject to intelligent control and direction.
The economists to be included are Clarence E. Ayres, John M. Clark, John R. Commons, Walton Hamilton, Wesley C. Mitchell, and Rexford G. Tugwell. These six economists have been chosen because they have, over a period of some four decades, written rather extensively in an attempt to evolve a science of economics suitable for the twentieth century. There are other institutionalists who perhaps could be included: Morris Copeland, Joseph Dorfman, Allan Gruchy, Abram Harris, to name a few. They, however, have confined their writings primarily to an analysis of institutionalism, about other institutionalists, or have devoted themselves to particular institutional studies. While their writings are an important contribution to the literature of the field, they have not, with few exceptions, made what could be considered as original contributions to institutional economics. They will therefore be excluded except for an occasional illustrative reference.

Although Thorstein Veblen is generally regarded as the founder of this school, he differed sufficiently in his outlook and general conclusions to warrant exclusion from this study. As we noted above, the main thesis which unites these economists is their concern for economic planning, for the collective use of our social intelligence to improve and reform the economic system. Veblen, on the other hand, had no faith in the ability of social control to make the present system work. The present system was too shot through with "imbecile institutions," institutions which simply furthered the power and prestige of individuals at the expense of the well-being of the community-at-large. Thus, somewhat contrary to his evolutionary point of view, and quite

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contrary to his reiterated insistence on the continuity of culture, he came to the conclusion that the only salvation for society lay in overthrowing the present institutional fabric. Always the cynic, nearly always bitter, Veblen found the only hope for a better tomorrow in the elevation of the engineers and technicians over the captains of finance and the absentee owners, both of whom were quite dispensable. Thus, in one characteristically Veblenian discussion of the mutual interdependence of the various factors of production:

It is true, of course, that the man-power without the due equipment, material resources, and technical direction, will come to naught as a creative force. So will also these other factors in the case without man-power, duly trained. By itself any one of them is of no account, but each is indispensable in the combination. It is only in team-work, duly balanced, that these things become creative industrial forces. The only dispensable factor in the case is the owner.  

Charging that the owners and captains of finance specialize in "industrial sabotage," that they were dedicated to the "conscientious withdrawal of efficiency," Veblen concluded that "it is no longer practicable" to leave the control of modern industry in the hand of business men working at cross purposes for private gain, or to entrust its continued administration to others than suitably trained technological experts and production engineers without a commercial interest.

The modern industrial economy, Veblen argued,

is a mechanically organized structure of technical processes, designed, installed, and conducted by these production engineers. Without them, and their constant attention the industrial equipment, the mechanical appliances of industry, will foot up to just so

7 Veblen, Thorstein, Absentee Ownership and Business Interests in Recent Times (New York: B. W. Huebsoh, 1923), p. 289.
much junk. The material welfare of the community is unreservedly bound up with the due working of this industrial system, and therefore with its unreserved control by the engineers, who alone are competent to deal with it.

It will not suffice to modify or to ameliorate. The modern industrial system has so outgrown the eighteenth-century system of vested rights, the business man is so purposefully wasteful and inefficient, that

... any businesslike control of production and distribution is bound to run more and more consistently at cross purposes with the community's livelihood, the farther the industrial arts advance and the wider the industrial system expands.

There was nothing which could save the old order. The sooner we gave up the control of industry by business interests and turned it over to the industrial engineers and technicians, the sooner we could abolish industrial sabotage and turn the industrial system to account for the welfare of the whole community.

The more recent institutionalists, though tremendously influenced by Veblen in many respects, did not take the dismal outlook that he eventually adopted. It was their belief that the present system could be made to work for the welfare of society. And it is this concern for economic reform, and economic planning to effect that reform, which unifies this group of economists. It is the purpose of this study to show how they came to that conclusion, and what the premises and assumptions are which do lead to that conclusion, for only when taken in its total context, do the various strands of the institutional school come to be understood and appreciated. Most of the criticisms of institutional economics are criticisms of the minutiae; they are often criticisms from a quite different set of assumptions. As Veblen criticized

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9 Ibid., p. 69.
10 Ibid., p. 100.
the critics of Marx:

Except as a whole and except in the lights of its postulates and aims the Marxian system is not only not tenable, but it is not even intelligible. A discussion of a given isolated feature of the system (such as the theory of value) from the point of view of classical economics is as futile as a discussion of solids in terms of two dimensions.11

It is my hope that this study will show the unified and comprehensive view of institutionalism which I believe to exist, to show that the minutiae and details are related to each other, and that when taken together, they do form a larger and more consistent pattern.

The Genuinely Identifying Badge of Institutionalism

If institutional economics is more than the mere "accumulation of data and analysis of it in terms of an evolutionary process," what, then, is its "genuinely identifying badge"? Is there a common philosophy, methodology, and purpose which unites this group of economists? Is there, in short, an institutional economics? Each of these economists with which we are concerned has attempted to answer these questions in numerous articles and books. But the usual reaction on the part of other economists is that while these various works are interesting, they do not form a part of a larger pattern; that they are each independent of the others except for a few common points of view, the most obvious of which is that the institutionalists are critical of orthodox economic theory, but that they have not built any great body of theory to replace that of which they are critical.

This criticism, however, misses the point of what institutionalism is and what it has attempted to do. It is certainly true that these

economists are critical of orthodox economic theory. But it is not a criticism which was undertaken solely for the delight of tearing down a venerable and respectable body of thought; it was certainly not mere iconoclasm for the sake of iconoclasm. These economists examined orthodox theory and found it wanting; they therefore set about both to criticize it and also to begin laying the foundations of a different kind of economics. But Rome was not built in a day and neither was institutionalism—nor was orthodox economics, for that matter. Over a period of nearly a half-century these men have been attempting to reconstruct economic theory. It has not, however, been a minor attack on the periphery of orthodox economics for it has been the conviction of these economists that to meet the needs and problems of the twentieth century a rather thorough revision was mandatory.

This, however does not answer the charge that the institutionalists have not built a great body of theory to replace that theory which they have criticized. This charge of course can mean several things. If it means that the institutionalists have not aped what the orthodox economist has come to define as theory (and that is what such a charge usually implies), then the charge is quite correct. Institutionalism is certainly not price theory; neither is it, in the words of John R. Commons,

\[\text{the deductive method...of the classical or orthodox economics which rested upon the isolated assumption of self-interest /in which/ complexities are eliminated because a single assumption is isolated. This method finds the single cause in the assumption regardless of the time factor.}\]

In contrast to the rigid and timeless logic of orthodox economics,

Commons takes a much broader view of what economic theory actually should be:

...as we proceed with our investigation, we have a changing hypothesis, taking in new factors or retiring older ones, always seeking to make less utopian the utopias which our minds construct. Thus theory becomes, not only a mental process for investigation of facts, but becomes also an interpretation, correlation, and expectation of facts.\(^{13}\)

Rather than erect a newly refined body of what is traditionally accepted as economic theory, the institutionalists have turned their attention to solving what has seemed to them to be the more important problems in the functioning of the economy; that is, they conceived economics as being a functional tool for the direction, control, and improvement of the economy, rather than the logical derivation of the implications of a given set of assumptions (or as Commons views it, of a single assumption). This is perhaps why Gams finds it difficult to evaluate the "monographic atomism" of the institutionalists:

because one scarcely knows how to evaluate methods which, though of great utility in meeting day-to-day problems with day-to-day solutions, make no important theoretical contributions.\(^{14}\)

It is difficult because the institutionalists' conception of economic theory differs from that which has been traditionally accepted.

Just what is economic "theory" has been defined by several of the institutionalists. Professor C. E. Ayres, for example, holds that "the function of economic theory...is to take cognizance of the social


\(^{14}\)Gams, op. cit., p. 82.
needs of the day."¹⁵ And Rexford Tugwell in similar language says that

Theory is a product of the thought process; and, if we may assume that thought is not merely random mental activity but is always the attempt to resolve some difficulty, we may then go on to a definition of theory as sustained thought about some difficulty of practice. "Theory arises because of the inadequacies of the customary way of managing affairs."¹⁶

And, according to J. M. Clark,

Economic theory should be actively relevant to the issues of its time and it should be based on a foundation of terms, conceptions, standards of measurement, and assumptions which is sufficiently realistic, comprehensive, and unbiased to furnish a common meeting ground for argument between advocates of all shades of conviction on practical issues....

The center of theoretical interest at present is in price economics. If theory is to take its proper place, the center of interest must be shifted and price economics must become a subordinate part of social economics.¹⁷

The institutionalists, then, are agreed that economic theory should be actively relevant to the current problems, to the social needs of the day, that it arises because of the inadequacies of customary ways of meeting problems, and that it should "contribute scientifically to economic reform."¹⁸ And if economic theory and economic practice are to achieve these various goals, they have insisted upon the need of a thorough overhauling with respect to basic assumptions, scope and methodology. Does this mean that the institutionalists are completely

dissatisfied with orthodox economics, and that they have set about
to evolve a totally new and unrelated approach? We cannot give a
categorical answer to that question, for the degree to which they in-
dividually accept or reject orthodox economics varies from individual
to individual. Generally, they are in agreement as to the incompleteness of orthodox economics, especially its attempt to read all economic matters into the horoscope of price. Walton Hamilton has given a rather detailed account of his view of what is economic "theory" and why institutional economics alone meets the necessary criteria. We might, then, summarize at length from his views:

The "institutional approach" doubtless has some importance because it is a happy way to acceptable truth, but its significance lies in its being the only way to the right sort of theory. An appeal for "institutional economics" implies no attack upon the truth or value of other bodies of economic thought, but it is a denial of the other systems of thought to be economic theory....

The claim of value economics to the dignity of "economic theory" is not lightly to be put aside. In common speech it is recognized as "economic theory." ... Yet its claim must be disallowed. Its merits are due to a failure to recognize the complexity of the relations which bind human welfare to industry.... "Institutional economics" alone meets the demand for a generalized description of the economic order. Its claim is to explain the nature and extent of order amid economic phenomena, or those concerned with industry in relation to human well-being ... Such an explanation cannot properly be answered in formulas explaining the processes through which prices emerge in a market. Its quest must go beyond sale and purchase to the peculiarities of the economic system which allow 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."

Hamilton goes on to list five tests which he holds any body of economic doctrine which aspires to the name of economic theory must meet:

1. Economic theory should unify economic science.
2. Economic theory should be relevant to the modern problem of control. ... If institutional economics has a relevancy which neo-classical economics has not, it is because problems have changed.

3. The proper subject-matter of economic theory is institutions. If it is to be germane to the problem of control it must relate to changeable elements of life and the agencies through which they are to be directed. Such elements of life and directive agencies are alike institutions.

4. Economic theory is concerned with matters of process. ... Value theory deals with its phenomena as if they were physically complete, independent, unchangeable substances. ... We need constantly to remember that in studying the organization of economic activity in general as well as in particular, we are dealing with a unified whole which is in process of development.

5. Economic theory must be based upon an acceptable theory of human behavior. ... In the past economics has been fortunate in using a theory of conduct in harmony with the general thought of the age. It has been unfortunate in taking this unconsciously from the common sense of the times rather than arriving at it by careful observation and analysis. This has led to a disposition to preserve it as part of a traditional body of doctrine long after it had ceased to have meaning to those who had looked at it too critically.19

In this rather lengthy observation Hamilton makes at least two points worthy of emphasis at this time. The first is "if institutional economics has relevancy which neo-classical economics, has not, it is because problems have changed." This, I think, would find general agreement among the institutionalists; that is their criticism of orthodox economics would be not so much that it is wrong, as that it is no longer applicable or relevant. It would be a fruitless task to modify or refine the orthodox analysis. In the opinion of J. M.

Instead of starting with static doctrines and modifying them to allow for dynamic elements, it seems to me necessary to start with the static premises and revise them.  

The issue of statics versus dynamics will be considered in greater detail later, but the important point here is that the institutionalists do not conceive their task as merely refining the traditional economics; in fact, they would hold that therein lies one of its major faults, that it has been refined for too long and hence is no longer applicable.

The second point of Hamilton's to consider is his test that "economic theory should be relevant to the modern problem of control." This test would of course bring sharp disagreement from many economists, but not from the institutionalists for that is the major unifying characteristic of institutionalism—the attempt to convert economics into a tool for the direction and control of the economic system. And this also explains, to some extent, why there is and can be serious disagreement among economists as to the place of institutionalism in economics—or even of its claim to be economics ("maybe sociology, but not economics..."). To many economists, economics simply is not concerned with the problem of control or of planning. They conceive economics to be "the science which studies human behavior as a relationship between ends and scarce means which have alternative uses."  

Or as "the study of the principles governing the allocation of scarce means among competing ends when the objective of the allocation is to maximize the

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20 Clark, J. M., Ibid., p. 323.
attainment of ends." And Boulding defines economic theory as "a body of general principles and a discipline of logic which may be applied to the interpretation of all economic problems, past or present." Viewed from any of these definitions, then institutionalism is indeed a controversial departure. It is not the task of this study to debate the issue of whether or not the institutionalist approach is better than the traditional one. That is for each economist, or would-be economist, to decide.

This concern for economic planning and reform does not suggest that institutionalism does not have a body of theory, for it does; but it does suggest that it is a theory of a different kind than that of traditional price theory. It is basically a method of approach, based on a certain set of generalizations or assumptions, which is concerned primarily with how to provide for the welfare of the community-at-large. Their theory stems from the pragmatism or instrumentalism of C. S. Peirce, John Dewey and William James, and is concerned with knowledge for the sake of action, rather than an attempt to uncover the universal and immutable laws for which Boulding is seeking. It is, then based on philosophical and psychological assumptions which differ markedly from those on which orthodox theory is based. And it is these assumptions which make institutionalism a quite different body of thought; and it is the examination of these assumptions which is the


24For a more complete treatment of the influence of pragmatism and instrumentalism on the institutionalists, see Chapter Five, below.
primary purpose of this study.

Institutionalism takes as its basic assumption that the function of the economic system is to provide, in the highest degree possible, for the welfare of the population as a whole. This assumption would probably not be denied by most economists. The distinction, however, would arise when the question is raised as how this is to be achieved. The institutionalists deny that this goal will be achieved by the automatic workings of supply and demand, free competition, laissez-faire— or any other set of natural laws, whether taken individually or collectively. Instead, they view the economy as a social institution which is governed by the existing state of the industrial arts operating within a given institutional structure, and, which is subject to human control.

Thus, with the economic system conceived as a social or human phenomenon rather than a congeries of natural laws and natural forces which are not to be tampered with, the institutionalist denies what is perhaps the most important tenet of orthodox theory—the efficacy of the market mechanism as the organizing force in the modern industrial economy. Traditional economics has made exchange value the central feature of its analysis rather than the conduciveness of industry to the community’s material welfare. And quite rightly so, when we assume that the way to achieve the highest level of material well-being is by means of the market mechanism wherein a vast sum of individuals are seeking their own self-interest, individuals who are conceived as being equal and who are "by nature" lazy, selfish and rational. But if these premises are dropped, then the alternative is to approach the problem from a different direction, and that is what the institutionalists propose to do. The institutionalists view consumption and produc-
tion, the economic system itself, as a part of a larger developmental process, that is, the community life-process. And in view of the fact that that process is indeed going on, we are confronted with the alternatives as stated by Barbara Wooton: "Plan or No Plan"; that is to say the alternative of planless or planned, vegetative or intelligent, growth and development. If the alternative chosen is an intelligently planned growth or development, and this is the one these economists have chosen, then they insist that this directing, controlling, planning, must be based on a wider and more modern understanding of our highly complex and interdependent industrial economy than that provided by orthodox price analysis.

What, then, is their central theory--their "discipline"? To paraphrase Professor Girvetz:

"Institutionalists have been loathe to present blueprints. Good architects do not plan the details of a structure until they know the site on which it will be built. Doctrinaires and dreamers may quarrel about the outline of Utopia; wise men will consider the problems at hand. Accordingly, the method of the "Institutionalists is tentative rather than final, experimental rather than authoritarian, pragmatic rather than dogmatic."

And Professor Dorfman, long a student of institutional economics, has said that:

In concluding, I simply want to say that I think that succeeding generations will make contributions to institutionalism, for as long as our economy is a growing one, there will be need for "analytic description" and adjustments of policy. The current period is one of consolidation of gains.... However, an era of inflexibility of theory may again occur, and then once more there will be vigorous protest, doubtless under a different name than that of institutionalism.

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Institutional economics is seen to be tentative, exploratory, experimental; "theory" is more of the nature of an approach to economic problems, rather than a given and eternal set of principles. A more precise statement of what institutional economics is, will emerge during the course of this study.

**Forecast of the Thesis**

Stated very briefly, it is the thesis of this study that this group of economists has one major characteristic in common: the view that economics should be converted into a tool for the conscious control, improvement, and reform of the existing economic system. The major portion of the study will be devoted to an examination of the unifying assumptions and points of view which led these economists to this concern for economic planning and reform. These assumptions and premises were in large part a product of the intellectual, social, and material environment of the twentieth century, which as David Hamilton has so well demonstrated, is at variance with the conditions under which orthodox economics was nurtured.27

It has been recognized by many that the institutionalists were concerned with or interested in economic planning and reform. Richard Teggart, for example, in his critical study of Veblen, noted that even the recent survey of modern economics made by the Hungarian economist fails to appreciate the extent to which Veblen's dialectical subtleties have contributed toward a current tendency of thought which pretentiously links the name of science with suggestions and demands for the social control of economic activity.28

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27 Hamilton, David, *op. cit.*

And Joseph Dorfman, in a somewhat friendlier spirit, pointed out that

In general the institutionalists stood for social control and the need for a more realistic understanding of the functioning of the economy in order to make intelligent adjustments.  

And in a similar vein, Gambs noted that

Their interest in the present and the past is primarily to help them shape the future. The light of their knowledge usually focusses upon the possibilities of action, of public control of business, of social and economic planning.

Likewise, Gaetan Pirou, the French economist recognized that

Classical economics is the corollary of an automatic economy. Institutionalism is the corollary of a planned economy. It is therefore connected to the experimental and pragmatic eclecticism of the beginning of the twentieth century.

And Kenneth Parsons, a close student of Commons, summed up what he considered to be Commons' main contribution when he stated that Commons

has been attempting to work out a theory of economics which shall be adequate both for the analysis of economic problems and the guidance of social action in resolving the difficulties.

With one exception, however, there has been little more than such passing references to this facet of institutional economics. That one

30 Gambs, op. cit., p. 71.
exception was an article of Professor Gruchy's: "The Concept of 
National Planning in Institutional Economics," which, while expand-
ing on the theme of planning as viewed by the institutionalists, does 
not adequately explore the background, the assumptions and generaliza-
tions, which form the basic framework for such an outlook.

It may be questioned whether any one institutional economist ever 
held without qualification the thesis as present in this study. And 
the obvious answer of course would be that none did. There is no in-
tention in this study to imply that all of these economists agree with 
all the points that will be raised. Just as there are many differences 
among the orthodox economists, there is nevertheless a recognizable and 
unified body of thought, and so also is the case with institutional eco-
nomics. There are many points and ideas which these economists have 
discussed which are not included in this study; and no attempt has been 
made to include every side of every issue. It is simply the aim of this 
study to show that there is a consistent and unified body of thought 
which warrants the title "The Institutionalist School of Economics," 
rather than a dissident and heterogeneous group of institutionalists.

In so far as possible the study will rely on direct quotations in 
order to let each of these economists speak for himself on the various 
issues and topics. My role is simply to have detected what appears to 
be a unifying framework and then to put their writings into that frame-
work. Whether that framework exists and whether these economists fit 
that framework is, of course, for the reader to decide.

Gruchy, Allan G., "The Concept of National Economic Planning in 
CHAPTER II

THE ECONOMY, ECONOMICS, AND THE ECONOMIST

The Function of the Economic System

An important aspect of institutionalism is what the economic system is, its function or purpose, and how well it achieves this function. The institutionalist takes a rather instrumental view of the relationship between himself as an economist, the science of economics, and the economic system itself. He generally conceives himself to be, not an idle bystander—a disinterested observer—but rather, an active participant in the functioning or non-functioning of the economic system. It is thus that he views economics as "the attempts of thinkers ... to come to grips with the problems of their times." Taking a genetic or evolutionary view of the economy, he views it as being in a constant state of development within which new problems arise which consequently require readjustment—readjustment not only within the economic system, but within the science of economics itself. It was from this point of view that J. M. Clark gave his evaluation of Adam Smith:

The most important thing to preserve is the thing which gave his thought its power and vitality; namely, its grasp on the interests of his time to which the institutions of the time gave inadequate opportunity and expression. And since these interests and institutions have changed greatly in a century and a half, our answer must correspondingly change....


Since the interests and institutions have changed greatly, these economists insist that the older, traditional, economics is no longer applicable. Thus it was that Ayres pointed out that

\begin{quote}
It is this kind of problem—problems resulting from institutional obstruction—that gives rise to economic planning. The over-all problem of economic planning is one of institutional adjustment. ... The progress of science and the industrial arts is continually altering the physical patterns of social life so as to produce situations contrary to the institutional practices of the community.\textsuperscript{3}
\end{quote}

And so it is, Ayres thinks, that among the various circumstances which led to the formation of institutional economics as a "new conception" of the economic system, "one has been concern for the actual functioning of the economy."\textsuperscript{4} This concern for the actual functioning of the economic system plays a major role in the thinking of these economists and an examination of this concern necessarily involves the question of what they consider to be the purpose or function of the economic system, how well that function is being fulfilled and how, if it is not being fulfilled adequately, the situation could be improved.

To begin with, they take a rather broad and inclusive view of the productive process. It is not in their view merely the grinding out of goods and services by an automatic mechanism. It is, rather, an integral facet of the total social milieu; it is an exceedingly complex and involved technological and institutional process; it is, however, subject to human control and direction.

Basically, they conceive it to be the conflict, or the lack of con-


\textsuperscript{4} Ibid., p. 22.
gruity, between these technological and institutional characteristics which are responsible for malfunctionings in the economic system. Thus it was that Mitchell pointed out that the business cycle is dependent upon a "particular scheme of institutions" and our understanding of that institutional scheme is therefore deemed to be of primary importance.\(^6\) Elaborating upon the importance of the institutional and technological aspects of economic activity for economic analysis, Professor Ayres argued that

> If the productive potency of our society constantly threatens to overflow its distributive arrangements, the complete explanation of that situation must eventually take account of the dynamic character of technology itself; and if the distributive arrangements of our society fail to adjust themselves to prodigious gains in productive efficiency, the complete explanation of that aspect of the case must take account of the static character which our institutions share with all of their kind.\(^6\)

In Tugwell's opinion, it is the insistence upon such vestigial institutions as "competition, on voluntarism, and on the sacredness of the right of each to do as he sees fit with the property to which he holds title" which stands in the way of an effective coordination of industry.\(^7\) If we are to achieve this effective coordination of industry, Tugwell insists that

> we need, as a point of departure, a description of going industry rather than a traditional attitude. Only when we substitute a real picture for the ideal one do we reach a workable basis either for understanding or for reorganizing effort.\(^8\)

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8. Ibid., p. 143.
It is this substitution of a more realistic understanding of our modern, our highly dynamic, industrial economy for a "traditional attitude" which the institutionalists are attempting. This industrial process is, in the view of Walton Hamilton, "dynamic, erratic imperative"; industry "moves, situations change, industrial custom takes a new form." Hence,

Public policy can employ no single method of attack. Industries are moving at various tempos in different directions. ... The national economy is an intricate affair; the attack upon its disorders must go forward case by case.9

Such being the case, Hamilton argues that "The task of keeping industry the instrument of the commonwealth is as arduous as it is everlasting."10

The institutionalists are in general agreement that the economic system, as it has operated in the past several decades, has not always, indeed, has rarely, produced the goods and services of which it is capable; nor has it distributed this limited amount as equitably as it could and should. Thus, Hamilton remarks that we

... can hardly escape the conclusion that the economic order yields far less of the wherewithal of the living, leisure, and opportunity than even as a minimum we have the right to expect from it. It has served us none too well, is only partially under our control, and still presents a turbulence that awaits the domesticating touch of the future.11

And Mitchell in similar fashion, holds that the economic system is subject to further criticism

if the test of efficiency in the direction of economic activity be that of determining what needs are most

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10 Ibid., p. 99.
important for the common welfare and satisfying them in the most economical manner.... For, in nations where a few have income sufficient to gratify trifling whims and where many cannot buy things required to maintain their own efficiency or to give proper training to their children, it can hardly be argued that the goods which pay best are the goods most needed.12

This criticism of the market mechanism for failing to determine what needs are most important for the common welfare is, in many respects, similar to J. M. Clark's argument in connection with his concept of overhead costs: that the cost to society of supporting labor does not vary with their output, and yet, according to "our customary system of wages," this fixed cost is translated into a variable cost to the firm, to be incurred if it is profitable. If large numbers of firms lay off labor because it is not profitable to hire them, Clark thinks that "socially speaking, this is a fallacy; a pecuniary fiction."13 The market mechanism, in other words, does not operate so as to determine which needs are the most important and then satisfy those needs in the most economic manner.

A theory of economics should, according to Tugwell, include what is the goal of the industrial system, what ought it to be directed toward. It is from this instrumentalist attitude and the disconcerting events that have taken place in the economic system, that these new views and attitudes about the economic system have arisen:

a notion of industry as one social mode of functioning to be devoted henceforth to new ideals. Industry ought perhaps to supply the world with goods, but equally important, it ought to supply its workers with a good life.... It ceased to be a matter of urgency whether some individual enterprises were protected in their

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Mitchell likewise views production as not merely the "process of making goods, but also as a set of human activities in which the workers are being cramped or being developed." Such being the case, economics will lay less stress upon wealth and more stress upon welfare. Welfare will mean not merely an abundant supply of serviceable goods, but also a satisfactory working life filled with interesting activities. At present welfare 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.

As a further illustration of their broad and inclusive view of the economic process, Professor Ayres holds that

The whole idea of an economic system is contingent on the assumption that production and distribution coincide and are different aspects of one and the same thing.

It is from this point of view that Ayres asks the question whether it is to "the interest of industrial society for two-thirds of the population to be ill-fed, ill-clothed, and ill-housed." And it should be noted that this question is asked, not as an interested humanitarian, but as an economist who is directly concerned about the effective functioning of the economy. It is in the same manner that Mitchell insists upon includ-


ing the goal of a satisfactory working life, and Tugwell stresses that industry ought to supply its workers with a good life, and Clark holds that

Individuals may be so poor that they literally cannot afford to conserve their health, but the nation is never so poor as these poorest individuals, either in goods or in the range of policies and expedients which are open to it; hence it can afford to conserve health where the individuals themselves cannot and can set a higher money value on it than individuals are in a position to do.17

From the above it will be seen that these economists take a rather broad and at the same time a rather critical view of the functioning of the economy. To them the economy is not a vast impersonal market wherein the forces of supply and demand operate to satisfy consumers' wants, to allocate scarce resources among unlimited consumers' desires. It is rather a social or cultural phenomenon, the product of many historical influences, which molds men as well as goods, which satisfies some needs and neglects others—others which these economists hold to be more important than some that are satisfied. It has failed to provide even the minimum of living, leisure and opportunity which it should have provided. The institutionalists are convinced that the economic system as it has operated has not made full use of its productive resources and capacity, that from a social point of view, there is a persistent trend away from the optimum use of its resources. Their economics, then, is concerned primarily with the efficiency of the whole system, and an efficiency measured not in terms of business profits but in terms of the broader aims of society.

They insist that economists must concern themselves with peoples'

wants and needs, with ends, and not confine themselves to an analysis of economic mechanisms. Orthodox economics assumes that the economic mechanisms are themselves neutral but the institutionalists insist that these mechanisms are not neutral for they hold that the market is biased and that if the economist limits himself to a study of the market he is accepting that bias. They argue that the economist cannot limit his study to the organization of economic forces by the single agency of price or to measure human ends solely by their expression through the price mechanism. As J. M. Clark has summarized it, the function of the economic system is to serve the interests of human beings, but

Price is only one agency for furthering that purpose, and those interests which command a price are the ones served by the system of private enterprise. ... If we are to judge the effectiveness with which the function is being performed, and the success of the system of private enterprise in performing it, we shall stultify the inquiry if we do not contemplate the whole function, and include all the interests, whether they command a price or not. ... If we see no interests except those which command a price, we are hardly in a position to make a searching scrutiny of the adequacy of price as an agency for the furthering of interests. 18

It should be noted that Clark takes as a basic premise that the economist is to judge the effectiveness of the economic system, that the economist should make a "searching scrutiny" of how adequately the interests of all human beings are being met. He does not, in other words, take the price system as one of his "givens."

Another major point of agreement about the economic system is the view of the role of competition. The degree to which competition does or

does not prevail is of course a perennial theme among economists of various leanings. It should be noted, however, that the institutionalists are not interested solely in whether we have a competitive system, or to what extent monopolistic elements have encroached upon that system, or the best way to rid the economy of such elements. The orthodox economist generally looks upon competition as being the regulator of the economic system; it is in his view the primary means to be relied upon to achieve justice and harmony in the industrial order. Any deviation from competition is therefore suspect. The institutionalists on the other hand take a rather dim view of its effectiveness as a regulating or coordinating mechanism. Clark, for example, thinks that it is a "serious question" whether competition "can continue to work with dominating effect under the changing conditions of large-scale industry."\(^{19}\)

In *The Pattern of Competition*, Hamilton insists that the problem of competition must be examined from a "practical" rather than an "academic" standpoint. He argues, and would of course not receive much opposition, that the concept of pure competition is a thing of the mind rather than of the economic system, it is "more a creature of intellectual method than of industrial reality." These academic exercises are, in Hamilton's view, for those "whose delight it is to turn a handful of postulates into an articulate system; they well serve persons who must have their truths simple, round, and universal." Hamilton excludes himself from this latter group, and asks instead, "can our economy be described in terms of competition?" "Is competition an effective instrument of order and justice which a society can use at its will?" "Or is it, after all, a great myth by which we reconcile ourselves as best we can to a business system which

\(^{19}\) *Social Control of Business*, p. 141.
goes its own way? Hamilton thinks that the latter explanation is the nearer the truth, that the competitive system no longer prevails and to conceive of the economic system in such terms is only to delude ourselves; it is the "great apology." In an earlier work Hamilton discusses the evolution of competition as a regulating device, pointing out that

In its heyday competition was regarded as the one way of industrial order—not a mere scheme of human arrangements. It was the product of the great organizer which shaped all wealth to social ends. Its omnipotence was first challenged by the invocation of the state to maintain the conditions essential to its successful operation. ... Once a part of the natural order and an affair for the gods, it has come under the dominion of man. As industry becomes the concern of human beings and of public policy, the way of its control descends from the absolute and the imponderable to the concrete and the specific.

Hamilton does not believe that competition as such has ceased to exist or that it ever will, "competition among persons, goods, industries, ideas, institutions and cultures" will always remain. He does argue, however, that the 19th century concept of competition as the omnipotent regulator of economic activities is no longer valid.

The important point is that they insist that competition has failed to achieve that which it was theoretically supposed to achieve—harmony and justice. They insist that the importance of economic power, or "coercion" as Gambs has named it, is not only neglected, but is not even given a place in orthodox analysis. Thus Ayres holds that whereas


23 See Page 3, above.
capitalism is a "power" system,

the key to a sound economy is not power but production. In effect, the old economics declared that no one need concern himself about production. Competition for pecuniary gain—that is to say, for economic power—would take care of that.24

The orthodox economist would of course agree that the key to a sound economy is production, but would argue that the way to obtain this production is to permit the businessman to compete for profits. Ayres, however, insists that what this really means is to give the businessman freedom to exercise his power to achieve his individual goals without interference or restraint (or at least a minimum of interference or restraint). The institutionalist sees this individual businessman as being concerned, not so much with the balancing of marginal costs and marginal receipts, as with how to increase his sphere of control over a vast range of situations—political as well as economic. He is concerned with interlocking directorates, with how to get Jones appointed head of the Public Housing Commission since Jones is opposed to public housing, or how to get Smith on the Federal Power Commission since Smith is opposed to federal power developments, or how to remove Brown from the Bureau of Standards because Brown insists on testing a new "Youth-Restorer" in the laboratory rather than in the market. He sees the businessman as being content to more or less follow the general practices in business operations, operating more or less by rule of thumb. The businessman is less concerned with the actual costs involved in a union's demand for higher wages than with the relative division of power that will result if the demand is met. It should be recognized of course that orthodox economics has taken note of

such problems, especially in the last few years. The institutionalist, however, insists that such treatment still regards this activity as atypical, that so long as economic analysis is rooted in the analysis of price and the workings of the market mechanism, it cannot adequately cope with such problems.

Commons especially has concentrated on such problems as these in great detail. His emphasis on transactions as being the crux of economic analysis is based on the idea and the existence of very complex power relationships existing throughout the economy. So long as economic activity is conceived as being the result of bargaining between two individuals who are equal, then economic power or coercion will not arise since competition will prevent its being utilized by either party. Commons insists, however, that such a conception does not do justice to the modern industrial economy. Thus he pointed out that

Adam Smith, in basing his economic theory on the legal rights of the individual to liberty, equality, and property, strongly opposed both corporate and regulative forms of concerted action. As against them he set up an impersonal, quasi-mechanical competition which controlled individuals in their bargaining.25

Such a reliance upon competition is no longer applicable Commons holds for it ignores one very important aspect of the problem. For competition to achieve the ends which it is supposed to achieve, the necessary condition is that such competition be between equals. Commons points out that Smith, and the courts, and most economists since Smith's time, have assumed that the only source of inequality was political. That is to say, that if individuals were free and equal in the eyes of the law,

if no one person were granted special privileges or another person special liabilities, then the two would be equals. Commons argues, however, that this ignores one very important and pervasive source of inequality, namely, economic power or coercion:

The trend in economic history is no longer the old laissez faire, or "let alone," in human activity. Now it is becoming evident that the choice lies in the degree of power of an individual confronted with choosing an alternative—a double choice which is the all-inclusive foundation of modern economics.26

It is for these reasons that Commons holds that the basic unit for investigation in economics is the transaction, and it is also why he distinguishes three kinds of transactions: bargaining, managerial and rationing, which differ according to the economic and the political status of the individuals involved. Thus bargaining transactions (those which are the concern of orthodox economics) may take place between individuals who are equal before the law, but who have very unequal economic power. Commons centers his analysis on the concept of power because, as he sees it, property today has come to mean economic power; it has come to mean not merely to hold for one's own use, but "the right to withhold from others what they need but do not own."27

Thus, with legal power to withhold commodities and services finally recognized 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


Commons concludes therefore that

The term "property" cannot be defined except by defining all the activities which individuals and the community are at liberty or required to do or not to do, with reference to the object claimed as property. This of course implies that both liberty and freedom (economic power) are aspects of property; or the converse, that property is the source of both liberty and freedom (economic power). Liberty, according to Commons, means the absence of physical (legal) restraints, while freedom means the ability (i.e., the "power", including the economic power) to proceed—the existence of opportunities. Commons makes much of these aspects of property for to him they are essential problems relating to the role of competition. "If competition were always ideally free, as assumed in the working hypotheses of non-institutionalists, then there would be no measurable difference between competition and choice of opportunities."

Competition, however, is not always ideally free, and Commons is concerned therefore with

the social opportunities owned, controlled, or withheld by other individuals, in a world where there is no equilibrium at the cost of reproduction simply because there is not perfect freedom, perfect equality, or perfect promptitude of competition.

The point seems to be that Commons is not interested in analyzing

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the profit maximization of individual firms in a powerless vacuum where-in competition will work for the benefit of all and where if competition does not exist it should be reinstated. He does not seek to find the understanding of the economy in the forces of supply and demand operating to raise or to lower prices in an impersonal market. He is, rather, concerned with the very complex power relationships which in fact do exist, power relationships which stem from economic and political inequalities which are manifested in bargaining, managerial, or rationing transactions. He is interested in the "collective action in control, liberation, and expansion of individual action"; he is concerned with the "economic collective acts of private concerns which are at times more powerful than the collective action of the political concern, the State." 32

Professor Ayres has a somewhat similar view of the problem of power in the modern economy. As noted earlier, he holds that the modern capitalist system is in fact a power system—not an efficient organization for production, and production he insists is the key to a sound economic system. He takes rather serious issue with the modern orthodoxy, namely, monopolistic competition theory and its ability to handle such problems. He noted in a recent book that the problem of bigness

is not a matter of price equilibrium at all. It is a struggle for power. Some economists (such as Veblen) and some statesmen (such as Justice Brandeis) have recognized it as such all along. But economists in general ... do not as yet do so. They do not do so primarily because the classical theory of the self-regulation of the market economy by the mechanics of price equilibrium has taught them otherwise....

The so-called monopoly problem is really the problem of financial power. It is not the degree of deviation from a

32 Commons, The Economics of Collective Action, p 21, Institutional Economics, p. 70.
theoretical ideal that makes a so-called monopoly dangerous.33

He goes on to point out that as a guide to social policy—what form or
degree of competition we should seek to maintain or to restore—, "The
theory of monopolistic competition is valueless."34 It is, he thinks,
the "reductio ad absurdum" of classical theory, for although the founders
of classical theory based their analysis on several serious errors, they
thought of competitive equilibrium as a desirable state of affairs be-
cause they thought that it was "natural." If, however,

any state of affairs is no more and no less natural than
any other—if oligopoloid and monopsonistic situations
result in price equilibrium no less than competitive sit-
uations—then it seems clear that the attainment of price
equilibrium is not a guide to social policy, and that
classical theory now has no answer to the question, What
kind or degree of competition should we seek?35

Ayres and the other institutionalists would agree with Hamilton that
"the task of policy is to make industry a more useful instrument to the
community." To achieve this, however, there is a need of "more facts,
of better analysis, of a broader grounding in reality."36 They insist
that the policy to make industry a "more useful instrument to the com-
community" is not to be ascertained from such as the theory of monopolistic
competition.

What these economists are seeking is to make industry a more useful
instrument; they are trying to understand the economy more thoroughly in

33 Ayres, The Industrial Economy, p. 590.
34 Ibid., p. 387.
35 Ibid.
36 Hamilton, W., Price and Price Policies, p. 528.
order to provide the knowledge necessary for the control and direction of it. To achieve this end, they insist that the orthodox analysis is insufficient, for it merely takes the given institutional and technological situation as given and then seeks to analyze the play of the market forces. The institution of private property and the corollary problem of power is an excellent example of the difference in the two approaches. The institutionalist insists that the role of private property must be re-examined in the light of present day conditions. They do not assume property as one of the givens and then work out the logical implications of such a given institutional setting under static conditions. They seek rather to examine the role of private property in the functioning of the modern economy with a view to ascertaining to what extent this institution is a hindrance or a benefit to the functioning of the industrial community. As J. M. Clark has contrasted the two positions:

the earlier economics was content to ask: what is the justification of private property or occasionally: what was its origin, the realistic economics asks the more inconvenient question: what is private property and what is it doing?37

It is in this sense that they seek to examine the relations between liberty and economic power and private property, that they undertake a study of the problem of control versus ownership with a view to discovering how it affects the actual functioning of the economic system and how that functioning can be improved.

Traditional economics takes the institution of private property as one of the "givens"; it holds that economics is concerned only with the allocation of scarce resources among alternative uses. Hamilton takes

rather serious issue with such a viewpoint, however:

It is common among too many of us to hypothecate a world of scarcity in which humanity is the prisoner. Man is Alice in a kind of Blunderland who has to run as hard as he can to remain in the same place. He is a creature of innumerable and insatiable wants; and nature, which must provide the materials that minister to them, is an affair of scantly, even of niggardly, resources. The problem—which can invite nothing better than a passing solution—is to make the stuff at hand go as far as may be. The antithesis between human nature and the material universe is never to be resolved—for there is not enough to go around.

A finite world endows such a statement with a measure of truth; but it is far too much an economic version of the loss of Eden to be a well-rounded account. In an ultimate sense—though it is a little early in the affairs of mankind to raise the question of the absolute—the material universe may be fixed beyond our poor powers to add or subtract. It is, of course, impossible to develop human gifts or extract worldly goods out of stuff which does not exist. But as yet we have made hardly a start at turning to account what is there; the world of nature is a reservoir upon which we may draw rather than a treasury which we may turn to account.

Knowledge is the key to the universe. As vision is sharpened, knowledge accumulated, taboos broken down, ways of finding invented, the world about us makes its response. We know nature only as we discover and put to use the things it holds.38

If I understand Hamilton correctly, what he is objecting to is the sole concern on the part of many economists with the given relationship between man's infinite wants in a finite world, whereas to him the important problem is man's continual efforts to overcome this relationship, to narrow the gap. It is of course true that we live in a finite world, and a world in which there is diminishing returns with a given technology. But Tugwell argues that

Those nineteenth century economists who formulated the so-called dismal laws of economics, neglected the one obvious

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fact that "gives away the whole show." Man need not press upon his food supply if he wills not to and so can genuinely raise the levels of living; diminishing returns will never set in so long as man continues to exercise his intelligence. These economic generalizations turn out not to be natural laws at all but merely a statement of the conditions of life in an undeveloped society.39

Economic theory, since the time of Ricardo, has been passionately and painstakingly concerned with this principle of diminishing returns. Hamilton and Tugwell, however, are objecting to the sole obsession with the principle qua principle, for this misses what to them is truly significant: the circumventing of the effects of diminishing returns. The resources with which orthodox economics is concerned are not "given," Hamilton argues; they are "not primary, but derivative. They are natural resources in view of the knowledge and techniques which currently we bring to them."40 He is not willing to take either the technology or the institutional structure of society as one of the "givens." As he sees it, man's knowledge, his know-how, his tools and techniques, are "the key to the universe." They are the means of overcoming both the niggardliness of nature and the breaking down of old taboos, of outmoded institutions, such as the institution of private property. Thus he concludes that

if the common good is to be served, an economics of scarcity must give way to one of abundance. The right of a man to his own exists within the common wealth; he may do as he pleases with that which is his property. But liberty and property stop short at the line marked

40Hamilton, W., Patents and Free Enterprise, TNEC Monograph #31, p. 171.
And thus it is that the concept of and the function of the institution of private property must be re-examined and re-evaluated in the light of our modern industrial economy. This modern industrial economy is one in which property is important as a source of power. Property is no longer, as Commons has pointed out, the holding for oneself, but is the withholding from others. This distinction, according to Commons, underlies the difference between wealth and assets and between use value and scarcity value. "The distinctions are not made by customary common sense, but a science of economics must make the distinction," because the wealth of the community is increased by increasing the things useful to man while individual assets are increased by the scarcity of wealth.

This paradox of wealth and assets is confusing to common sense. But common sense has previously injected unconsciously something that restricts the supply and maintains scarcity value. Common sense injects private property... Economic theory, however, should not unconsciously inject private property as it has traditionally conceived. If the institution of property operates so as to decrease the wealth of the community, then it is the business of economics to show how that has happened and how the institution can be modified to work more efficiently.

It is obvious that the institutionalists think our economic system is capable of much higher levels of production, that it is not providing us with the standard of living of which it is capable. Thus Mitchell pointed out that the inefficiency of our economic organization is not

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41Ibid., p. 175.
42Commons, The Economics of Collective Action, pp. 94-95.
limited to those transitory periods of cyclical depression. The fact is that in good times as well as in bad our economic organization prevents society from producing as large a real income as natural resources, man power, plant capacity, and engineering skill make possible. As they see it, the primary function of the economic system is to provide as high a level of production as its natural resources, man power, plant capacity and engineering skill make possible, and if it is not fulfilling this task adequately, then it is the function of the economist to diagnose the ill and prescribe a remedy. It is in this sense that Hamilton asserted that if "the common good is to be served, an economics of scarcity must give way to one of abundance."

This view is of course quite contrary to the traditional view in economics, that economics deals with the allocation of scarce resources among alternative wants. Ayres argues that such a "definition illustrates perfectly what is wrong with traditional economic thinking." As Ayres sees it, the word "scarce" has been misused in economic thinking. In traditional economics, "scarce" refers to the point of view of the individual, and Ayres agrees that relative to air, bread, for example, is indeed scarce even to the richest man. But furthermore, and more important, it may be disastrously scarce to the unemployed at the same time wheat is so disastrously abundant to the farmer that it hardly pays to ship it to the mill. The latter, Ayres insists, is something quite different than scarcity to the individual; it is the social problem of over-all scarcity-or-abundance. The essential problem according to Ayres is that of "expanding consumption to bring it into line with our continually more abundant pro-


44 Ayres, The Industrial Economy, p. 366ff.
duction." This is a social problem and one for which traditional economics supplies no answer:

It is all very well to give "scarce resources" an individualistic meaning. But when we make this definition the basis of a declaration that there is no such thing as an over-all problem of abundance, we are saying in effect that there shall be no discussion of economic problems except in terms of individuals. In this fashion we make eighteenth-century individualism mandatory upon twentieth century "social" science, and in doing so we also invoke the whole intellectual setting of eighteenth-century individualism.\(^45\)

Ayres argues that this traditional point of view, based on an individualistic orientation, misconceives the social problem with which a social science must be concerned. He thinks that the social economy is quite capable of becoming one of abundance, that industrial production can be "prolific beyond the wildest dreams of only a generation or two ago."

The insistence that abundance is an unattainable illusion is based on a misconception. It is true, as many insist, that

the production of food, clothing, shelter, and the other necessities of life (not to mention luxuries), can never be sufficient to permit each of us to treat such things "like dirt." But is that the proper way to define abundance? As the soil conservationists are trying to show us, even dirt can be squandered. The proper test of abundance is not individual wantonness but social availability.\(^46\)

Ayres maintains that the significance of abundance is to be found in the social point of view and not from individual feelings of repletion. The significance of abundance is to be found in the fact that the "masses" are now able to avoid perpetual sickness; it is to be found in the tremendous efficiency of these masses; in the fact that "skill, initiative, and responsibility which are more widely diffused than ever before; and this fact is a direct consequence of abundance." The fact that the great

\(^{45}\) Ibid., p. 368.
\(^{46}\) Ibid., p. 404.
majority of children are now able to go through high school is due to a sufficient degree of social abundance to make it unnecessary that they work in the mines and mills. And perhaps more important is the realization that the masses are capable of such achievements—something which would have been deemed impossible not too long ago when it seemed clear that the common run were quite incapable, were "by nature" incapable of grasping any more than the barest rudiments of education. Now, however, it is "clearly established that the dullness and stolidity of earlier generations was in large part a matter of dietary deficiency, lack of proper sleep, and hookworm." It is such social improvements as these that makes abundance significant and important for economics:

Abundance can be had only through the medium of social justice, and social justice can be had only through the medium of abundance. Abundance and justice define each other. It is only because this is so that the industrial economy makes sense.47

And if this is the case, if it is only because of this that the industrial economy makes sense, then it is the function of economic analysis to understand that and to then make the industrial economy achieve it to an even higher degree.

The institutionalists would, I believe, take this as a basic criterion by which to judge the economic system; that is the extent to which it does provide social abundance, the extent to which it does provide for the material welfare of the community at large, the extent to which it contributes to the life process of the community. With this as a basic criterion, they go on to point out that economics is a study of how the economic system operates and how that operation could be improved upon so as to constantly improve this primary function. It is for reasons such as these

that Mitchell thinks that "on the whole, economists have been constructive critics and would-be reformers of the economic system." And in another place, Mitchell points out that economic life may be regarded as the process by which a community seeks its material welfare. On this view every person is a contributor to, a burden upon, or a detractor from, the commonweal. ... The concept of capital merges into the broader concept of resources—soil and climate, mines and forest, industrial equipment, public health, intelligence and general education, the sciences that confer control over nature, the sciences that aid in developing body and mind, and the sciences that bear upon social organization.

Now our interest in economics centers in its bearing upon social welfare in the present and the proximate future. ...it is feasible even now to set up a tentative criterion of economic welfare, and make investigations into the relations between various features of economic activity as now conducted and welfare thus conceived. Such work may have as keen theoretical interest, as genuine scientific standing, as work that professes to maintain a serene indifference to the fate of mankind. But its successful prosecution on a scientific basis presupposes considerable knowledge of how economic processes actually work at present.

Elaborating upon this concept of welfare and its relationship to economics, Tugwell insisted that the concept of welfare included "the ideas of progress, prosperity, and intelligent direction," the latter because if the complex system remains unguided or guided only by the intermittent acquisitivism of its individuals, happy adjustments will come by 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 civilization.

This formal dependence of society upon acquisitivism has led to the characterization of ours as an "acquisitive

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society." It is true that there is quite merciless play upon this rather unattractive human trait in our economic system. But this does not excuse economists for hiding acquisitivism under a mask of productive virtue, for justifying what becomes a ruthless and unintelligent directive force in industry, leading nowhere in particular except to the enlargement of this acquisitivism and the final justification of it in our common morality.

Consideration of the fact that the directive emphasis in our industrial system is worse than useless—even a positively pernicious—one leads directly to the whole problem of industrial ideals which we see economists are after all under obligation to understand, unless, indeed, they are prepared to turn this whole matter over to the philosophers and to content themselves with after-the-fact analyses of price.

Tugwell, however, will have none of this "after-the-fact" analysis of price, insisting to the contrary.

... The directive intelligence of our time must grapple at once with the complexities of an industrial system that is straining men's natures to the breaking-point in its uncontrolled and juggernaut-like advance. Upon whose minds should this directive responsibility fall if not upon those specifically gifted and trained in the understanding of industrial philosophy and technique?

The point of these quotations would seem to be that the function of the economic system is to provide, in the broad sense of the term, for the material welfare of the community, and that given this as the basic function, then the purpose of economics and the economist is to show how this could be improved; but to do this, economics needs to be overhauled and revamped.

The Nature of Economic Science and the Function of the Economist

The first point to be made in this respect would be to re-emphasize what has been noted thus far in this chapter, for their view of what the economic system is, what its purpose is and how well it fulfills that purpose is a very important part of their views on the science of economics. They conceive the economic system to be a cultural phenomenon which is in a constant state of evolutionary development; they conceive this economic system to be a product of institutional and technological determinants and that malfunctionings arise primarily because of the incompatibility of these institutional and technological characteristics; they insist that the function of the economic system is to provide for the material welfare of the community at large and they further hold that this process is subject to human control and direction; and if this economic system is to be controlled and directed, then a new avenue of approach must be made for the traditional field of economics will not provide the answers.

It is this search for a new approach which Commons is seeking when he argues that the "working rules" of corporations, labor unions, and governments constitute the "main subject-matter of twentieth century economics."

Instead of taking for granted a beneficent providence that makes the rules, as did the early economists, the rules themselves are investigated.... It is through a knowledge of working rules that modern administrative economics learns its mechanism of control by collective action.51

It is through a knowledge of working rules (which he notes are the substantial equivalent of "institutions") that economists are able to guide,

51 Commons, Economics of Collective Action, p. 129.
control and direct, for, "today human skill and judgment must take the
place of automatism." And it is on this basis that he criticizes the
traditional assumption of ceteris paribus, which, though necessary in
abstract logic, is misleading in practice because

Nothing remains the same. When we are trying to tie to­
gether all the changing activities, we are at least try­
ing to get away from our logical fallacies of taking
only that part that we are interested in and neglecting
the whole that concerns everybody. The problem is to
attain a balance between the parts which recognizes the
strategic and proportionate relations within the part­
whole complex.53

And this is indeed a complex and difficult problem because these rela­
tionships are continually changing:

What are contributory at one point of time may become
strategic at the next point of time. ... The most
important of all investigations in the economic affairs
of life, and the most difficult, as we shall find, is
the investigation of strategic and contributory factors.54

This relation of the strategic and contributory factors is an important
facet of Commons' economics for it is the strategic or limiting factors
which are basic to his conception of control by collective action. And
it is for this practical reason that the assumptions of homogeneity and
ceteris paribus have no working relevance for Commons.

It is in this same sense that Mitchell holds that the subject-matter
of economics is institutions, for they are the factors chiefly responsible
as directive agents for the forms of human behavior which are of interest
to economics. These institutions or social habits,

like our space perceptions, have elaborate implications

\[52\text{Ibid., p. 247.}\
\[53\text{Ibid., p. 138.}\
\[54\text{Commons, Institutional Economics, p. 90.} \]
that are not immediately apparent. It is useful to think out their implications carefully.... Any man who realizes that he is studying an institution keeps his work in historical perspective, even when he confines himself to analyzing the form that the institution has assumed at a particular stage of its evolution. By so doing he opens vistas enticing to future exploration, instead of suggesting a closed system of knowledge, ... he is eager to profit by any light shed upon his problem by any branch of learning--history, statistics, ethnology, psychology.

The reason why economics must keep an historical perspective, the reason why institutions are the main subject-matter of economics, is that economics is concerned with the facts and the problems of economic activity which is in a continuous process of change and evolution. If such is not the case,

If economics does not attempt to explain the concrete facts of economic life, then all Ricardian economics needed was skillful exposition, the correction of minor lapses, and certain extensions along the original lines. Economic truth has been found and would abide so long as logic lasted, no matter what paradoxical developments appeared in the world of railways, centralized banking, trusts, and trade unions; no matter what facts the statisticians pressed, no matter what the anthropologists learned or how psychologists shifted their grounds.

Since Mitchell holds that economics should attempt to explain the facts of current economic life, he holds that the present-day extensions of Ricardian economics is inadequate. With a change of emphasis to a study of institutions and the current functioning of the economic system,


57 See, for example, his "Engineering, Economics and the Problem of Social Well-Being," Mechanical Engineering, February, 1931, pp. 106-107, where he discusses the inadequacies of the marginal analysis.
economic analysis will come to a close scrutiny of the relations between our pecuniary institutions and the efficiency in producing and distributing goods ... investigations of this type will broaden out into a constructive criticism of that dominant complex of institutions known as the money economy—a constructive criticism which may guide the efforts of our children to make that marvelously flexible form of organizations better fitted to their needs.

And it is that "constructive criticism" of the economic system, of the organization of economic activity, which Mitchell deems to be among the primary functions of the science of economics, for his interest in economics centers in "its bearing upon social welfare in the present and proximate future." This approach Mitchell thinks could have as "genuine scientific standing," and "as keen theoretical interest" as that type of economic theory which "professes to maintain a serene indifference to the fate of mankind." It is from this point of view that Mitchell sees economics as part of "man's long struggle to master his own fate," and that seen in this perspective economic speculation represents a stage in the growth of mind at which man's effort to understand and control nature becomes an effort to understand and control himself and his society.

J. M. Clark also takes a rather dim view of the effectiveness of orthodox economics to deal with the problem of welfare and social reform:

When Marshall wrote his Principles of Economics the age seemed an age of self-reliant foresight beyond other ages, and this is the force around which nineteenth-century economics centers. The twentieth century is an age which, beyond other ages, is aware how much man is molded by his environment, and is deliber-

58 Mitchell, W. C., "Quantitative Analysis in Economic Theory," The Backward Art of Spending Money, p. 30; reprinted by permission from the AER, March, 1925.


ately undertaking to control this molding process. This fact must be a dominant note in constructive contributions to theory in the immediate future.  

Clark argues that for the economic problems of a century ago, the study of economics from the standpoint of individual initiative was supremely relevant, but that for the problems of today, it is other phases of activity that claim attention; and other methods must therefore be employed. Thus he thinks that the growth and advances in the fields of scientific knowledge of mental and physical health is "working a revolution ... undermining the idea that each individual is the best judge of his own desires."

Ill health is not only the greatest source of defeated desires, but also one about which the doctor knows more than the patient, and the public health officer, by virtue of statistics, may know more than either. Thus the social costs of industry in disease and accident may be recorded and studied quite objectively in a way far more useful as a guide to public action than is the a priori doctrine of equality between marginal disutility and marginal reward.  

It should be noted that the basic premise is to be "useful as a guide to public action"; and it is thus that Clark rejects the idea that economics should take as a basic assumption that the individual is the best judge of his own desires, for this individual "can make nothing out of the world that the world does not first make out of him"; nor can he "even desire of the world save as it has taught him to desire it."

We used to think that we sought things because they gave us pleasure; now we are told that things give us pleasure because we seek them. We built economics on the idea of rational choosing, only to be told that rational choosing is but a small and very imperfectly developed part of our mental life. We thought of the self as sovereign will, in 

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62 Ibid., pp. 96-99.
some sense independent of the universe. Men had their wants, and the universe granted or denied their gratification. Production consisted in turning out goods and services to suit these pre-existing wants. Now, however, we find a self which is but a series of attitudes toward the universe; a set of tendencies to react and to see, which are themselves the joint product of certain underlying tendencies, developed and given their shape and direction by the universe outside. ...

To sum up: the quest of welfare evidently involves far more difficulties than can ever be surmounted by the mere calculating faculty of the individual. The proportion as scientific research progresses, minimum standards of welfare will become more and more matters of social knowledge and less and less matters of individual taste....

The net result is that, according to Clark, man is today becoming more and more aware of the extent to which he is molded by his environment and that society is seeking to control this molding process, especially in view of the increasing scientific knowledge which society has at its disposal—knowledge which the individual can never obtain. These facts, Clark argues, must become a "dominant note" in modern economics. And it is for these reasons that Clark criticizes economists who

have been content to let the market decide the uses to which economic goods should be put. I am suggesting that they make a declaration of partial independence from the market, which is a biased instrument for recording values....

As noted above, the basic reason for declaring an independence from the market is that Clark believes that the individual is not the best judge of his desires or of what is good for him and any economic analysis which is concerned with "public action" which ignores this fact is to that extent incomplete and inadequate. Economic progress is to be had only by using "trial and error" as its chief tool; "it cannot be accomplished through

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63 Ibid., pp. 100-104, passim.

the static conception of independent demand schedules or the static 'ideal' of marginal utility."\(^{65}\)

Ayres in the same manner as Commons, Clark, and Mitchell proposes to find the meaning of the modern economy in an analysis of it as a social and cultural phenomenon. He notes in one place that institutional economics proposes to find the answers to important problems and questions in "the interplay of institutions and technology" which are the "basic analytical principles" of institutional economics.\(^{66}\) It is the distinction between these two aspects of economic life which he thinks is the "kernel of a general theory of social and economic development."\(^{67}\) The purpose of economics, insists Ayres, "is an attempt to achieve fuller understanding of the present social order. Such an attempt, if successful, should lead to a fuller appreciation of the merits, advantages, and possibilities of our society."\(^{68}\) The basic point of view underlying institutional economics, according to Ayres, is that economic analysis can provide "no universal or final answers." It does, however reveal "the instability of the industrial economy." This instability, however, is an immediate and limited problem which can be solved only through "pragmatic planning,"\(^{69}\) pragmatic, evolutionary, planning as distinct from blue-print planning.

Rexford Tugwell in similar manner insisted that the goal of economics

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\(^{68}\) Ayres, The Industrial Economy, p. 3.

\(^{69}\) Ayres, Ibid., p. 204.
is "through gradual and experimental change" to replace "social drift"; it is "to mold our social and economic environment so as to reap the largest possible rewards." Economic theory and analysis, Tugwell argued, cannot escape their "responsibility for policy. Economics is still social economics. The test of its significance lies in the field of social action." This being the case, Tugwell insists that received economics is not relevant to our modern industrial society; it is inapplicable to our present-day problems of control. Orthodox economics, in Tugwell's view, grew up beside the meager turnip fields of Europe.... We are just beginning to see that we shall really have to begin all over, forming our science upon relevant facts in American life....Economics incontestably has got a bad metaphysical odor that only a renaissance or rebuilding from the ground up can dissipate.

Tugwell insists that economics must become a "body of relevant principles"; and this is why he thinks that the so-called law of diminishing returns has "outlived" the significance or "usefulness it once may have had in economics." Thus he holds that it makes little or no difference in the work and analysis of the modern economist whether the "classical laws are clung to or not." The modern economist can believe them or not as he wishes, "but they have no working relevance for him." It is then the working relevance of the principles of economics—not their logical

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71 Tugwell, Our Economic Society and Its Problems, p. 541.
74 Ibid., p. 393.
truth or falsity—which is important.

It is a similar criticism which Hamilton levels at economics since the time of Mill at whose hands it "became more systematic, but less organic." It has become "little more than a mechanical scheme...aloof from the passing concerns of the day." As a separate and rigid discipline,

It was in position to acquire a body of traditions of its own which were to determine its future identity, its future province, and the direction of its growth. It was to draw to itself a group of professionals, of votaries who were schooled in its dogma rather than in the affairs of life, and who could be depended upon not to betray its traditions.76

It is this aloofness, the disdain for the mundane matters of the work-a-day world, which Hamilton finds wrong with the orthodox approach. He, like Tugwell, thinks that orthodox economics is no longer relevant to the problems occurring in the economic system, especially the modern problem of control.77

Wesley Mitchell presented a similar view of traditional economics, holding that prior to the stimulus of World War I,

economics had settled into an academic discipline, cultivated by professors and neglected by men of action, modest in its pretensions to practical usefulness, more conspicuous for consistency and erudition than for insight.78

It was the economic mobilization for war which pointed up the necessity for economics to turn its attention to practical usefulness, "rather than

76 Hamilton, W., "The Place of Value Theory in Economics," JPE, March, 1918, p. 244.

77 See pp. 11-12, above, for a rather lengthy discussion of Hamilton's view on this point.

logical consistency and erudition." The war forced to the attention of economists many complex problems, problems which required diligent and searching answers, answers which were not to be found within the framework of neoclassical price analysis. Textbooks and treatises on economics did have both their theoretical and applied sections, but Mitchell argued that they were "held together by nothing more intimate than the binding."79 It is from this deficiency that Mitchell held that before trying to remedy the defects we may see in the economic machine, it is well to ponder this current explanation in terms of marginal satisfactions and marginal sacrifices.80

It was his opinion "that this explanation must be improved before we shall know enough to make the machine work as we should like." Instead of the narrow marginal interpretation, Mitchell conceives economics to be a broader interest in the understanding of human behavior, and as such, "economic theory becomes part and parcel of the social psychology we are gradually developing through the cooperation of all the social sciences."81 And it is this broader approach to economics which Mitchell believes "will prove to be a vigorous organizer of working programs."82

John R. Commons' writings were quite difficult and complex and his criticisms of traditional economics are correspondingly difficult to draw out and to summarize in a few lines. This difficulty is partly due to the

79 Ibid., p. 372.
82 Commons, Economics of Collective Action, p. 189; cf. also, Legal Foundations of Capitalism, pp. 136-7.
fact that he seemingly accepted a great deal of orthodox economics, holding that it was to a large extent a product of early 19th century influences and relevant to such a period, but that a twentieth century economics is necessarily concerned with other and different issues. At other times, however, he is rather critical of the orthodox economists, insisting, among other things, that

they assume the very thing to be investigated and measured, namely, whether a given plan of management or administration is the best plan possible, under the circumstances, for the general welfare of all participants.\(^8^3\)

That is to say, rather than take the given institutional structure of society as one of the "givens," Commons argues that this is one of the primary areas to be investigated.\(^8^4\) It is in the same light that he criticizes the orthodox economics on methodological grounds. It was, he thought, simply the logical deductions from a single assumption—that of self-interest, whereas to him, assumptions should be "devices for investigation." Their validity is established or rejected "through the fruitfulness of their uses."\(^8^5\) Commons dwells at great length on the "individualistic" bias of traditional economics, insisting that a "twentieth century" economics must concern itself with the workings of collective action—the corporation, the trade union, the government. Rather than analyze and investigate "an individualistic human atom," this twentieth century economics should concern itself with "the working rules and

\(^8^3\) Commons, Economics of Collective Action, p. 189; cf. also, Legal Foundations of Capitalism, pp. 135-7.

\(^8^4\) In fact, he once held that his brand of economics should be known for its emphasis on the "investigational nature" of economic analysis. Cf. Kenneth Parson's preface to the Economics of Collective Action, p. ix and also Commons' article, "Twentieth Century Economics," Journal of Social Philosophy, 1939, Vol. V.

\(^8^5\) Commons, Economics of Collective Action, pp. 73, 113, 124-25; this point will be explored more thoroughly in Chapter V, below.
administrative decisions of all collective action."\(^{86}\) For the purposes of economics, "'society' is not the sum of isolated individuals, like a census of population; it is a multiple of cooperating individuals."\(^{87}\) The classical or orthodox conception of the social system, however, was "not a society, but a population of molecules."\(^{88}\) It is this social, or collective, point of view which Commons is attempting to establish in economic analysis. As Kenneth Parsons has pointed out,

> Essentially, Commons has been attempting to work out a theory of economics which shall be adequate both for the analysis of economic problems and the guidance of social action in resolving the difficulties. \(^{89}\) He shares in the deep faith of pragmatists (or instrumentalists) generally in the possibility of human intelligence for working out the problems of social conduct.

It is only from such a point of view as this as to the function of economics, that Commons' criticisms of the orthodox analysis is to be understood. It is because he conceived of economics as furnishing the foundation for control and guidance of the economic system, that he criticized others for "assuming the things to be investigated," for limiting economics to the logical deductions from a single assumption, for their individualistic orientation. It was in this same sense that he took Professor W. I. King, "a logical mathematical economist," to task for confusing the "law" of supply and demand with the "logic" of supply and demand.

> It is not "law"; it is a part-whole fallacy. Any one

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\(^{87}\) Commons, Economics of Collective Action, p. 132.

\(^{88}\) Commons, Institutional Economics, p. 225.

\(^{89}\) Parsons, K., "John R. Commons' Point of View," Economics of Collective Action, pp. 342-3.
principle of similarity, when isolated from all others, such as the law of supply and demand, can be carried out logically to its inevitable disaster. This is not economic law; it is economic logic, regardless of time and circumstances.  

The point is that the main objection to all collective action, whether against protective tariffs, against immigration restriction, against labor unions, or against corporations, has been interference with the law of supply and demand. Commons, however, argues that this is an argument against the logic of supply and demand, which depends on other things being equal. The important point for economics is that these interferences have nevertheless been repeated and cumulated for a hundred years, because the alternatives of noninterference under the circumstances were deemed worse than the interferences.

Public programs and policies, social experiments generally, "can not be evaluated in terms of 'the logical consequences of isolated assumptions." Instead, Commons insists they "must be judged by the practical consequences of their operations."

Clark's criticisms of orthodox economics are not as direct and pointed as those of some of the other institutionalists. This is in part due to his offering new suggestions as replacements without pointedly criticizing that which he feels needs to be replaced. He also apparently does not reject orthodox analysis as much as he seems to think it irrelevant to present day economic analysis. It is not so much that the answers provided in the orthodox tradition are wrong, as it is that the questions which are asked are not the more pressing ones to be answered today. Thus he pointed out that it is impossible to look realistically at the problems we

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90 Commons, Economics of Collective Action, pp. 136-7.
91 Ibid., p. 137.
shall face in the future without realizing that traditional conceptions of economic objectives and standards of value are bound to be disturbed, and in some respects reversed.\(^2\)

In another instance, he developed what he termed "Non-Euclidean Economics," in which he took what he considered to be the eight basic axioms of traditional economics, inverted them, and then analyzed the significance of these "antitheses." This venture was undertaken, he adds, not with a view to denying the truth or validity of these propositions, but of raising the question "whether their antitheses do not contain a more urgent and vital truth for the present generation."\(^3\) Another case of his insistence upon the relativity of economics was when he pointed out that

The traditional "economic laws" are not wholly obsolete, but they can no longer be presented as representing the dominant tendencies of the actual economic system now existing.\(^4\)

It is from this point of view that Clark infers that "each generation of economists succeeds to a new assortment of practical problems to which its doctrines are to be applied."\(^5\) In other words, it is not so much that orthodox economics is wrong as it is that the problems have changed and the new problems require a different approach and analysis. Thus it was that he pointed out that the assumptions of Smith were true

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"as over against the chief doctrines they had, at the time, to combat." He goes on to add that if those assumptions had been surrendered, it would not have been in favor of the modern ones of "social welfare and democratic solidarity," for these were not important at that time. They would instead have yielded to the "interests and sophisms of class exploitation." And while the points which Smith tried to make clear, which he tried to implement, are still important, they ignore many democratic and human values which are now striving for practical recognition, and the adjustment between these limited truths and others less limited is one of the central conflicts of modern economic thought.

As is readily perceived, Clark takes a somewhat broader view as to the scope of economics, the problems with which it should be concerned, than do his contemporaries in the orthodox tradition; he once expressed his thanks for "the evidence that there is more economic theory in the world than many theorists have realized." These few remarks sum up rather briefly Clark's views of traditional economics. He was, as was the case with the others, critical of many specific points which will be dealt with in somewhat greater detail in later chapters. Generally speaking, he felt that economic theory should be concerned with the economic and social problems of the day and that the orthodox treatment couched in terms of price analysis was inadequate, that if theory is to take its proper place, ... price economics must become a subordinate part of social economics.

97 Ibid.
...it is one thing to make a study of prices as such, and another thing to select the problem of price as the central one around which to build a general treatment of economic principles, or of economic order.  

Formal economic theory, Clark argues, has made but few and incomplete excursions beyond the realm of static and price-governed assumptions, and the need of an overhauling based on broader premises is more than ever a pressing one.

This "overhauling" is necessary in Clark's view because the economist "must deal with quantities and qualities of which actual market prices are not the only measure." It is necessary because "our most fundamental concepts should be independent of the institutions of competitive exchange ... if we are to have any standard of judgement on economic reforms which are continually overruling the valuations of the market."

Ayres is perhaps the most trenchant of the group in his criticisms of orthodox economics. He has apparently felt that it was not enough to erect the foundations for a new approach to economics; before that could be done, the old would have to be destroyed. In part, this belief stems from his conception of the role of economic theory and the history of economic thought. It was in one of his earliest writings on economics that he held that "the function of economic theory ... is to take cognizance of the social needs of the day." He argued that the growing insistence and importance of "fundamental social problems" and the inef-
fectiveness of orthodox theory in dealing with those problems was "forcing fundamental changes in economic theory." This view grew out of his contention that the history of economic thought reveals a definite cycle, that it moves through a "cycle of criticism, reconstruction, approbation, and renewed criticism of the institutional order." The cycle had by the twentieth century run its course—the development which began as a criticism of the then existing institutional structure had evolved into an approval of the now existing institutional structure. Thus it is once again time for economic theory to chart a new course, "not of revising economic doctrine," but of giving an account of the modern social economy "which shall square with the facts of social justice and thus be relevant to the needs of the age." His later writings indicate a strong dissatisfaction with orthodox economics:

"Economic theory has become a sort of intellectual game. ... So voluminous has the lore of this game become, and so taxing is the effort of becoming, and remaining, expert in it, that the ambitious economic theorist has no time or energy left with which to reflect on the meaning of it all. Meanwhile the gap between the esoteric formula-making of the theorist and the world of economic actuality has become so great that the theorist would be lost if he were to stop and inquire what his formularizing is all about." While his criticisms of traditional economics have been many, he has tried to evolve what he considers to be a more realistic and relevant economics. He often refers to the more recent dissidents in economics, of which institutionalism is the major facet, as the "new economics."

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104 Ibid., pp. 88, 70-71.
105 Ibid., p. 88.
106 Ayres, The Industrial Economy, pp. 18-19.
107 See pp. 34-36, above, for example.
It is clear that he considers his writings to be in this stream and that it is indeed a departure from traditional price theory and marginal analysis.

As was noted earlier concerning the other institutionalists, Ayres conceives economics as only a facet of a larger attempt to understand social phenomena; in his view, all the social sciences have been evolving toward a "unified field theory of human behavior, social structure and cultural process." And while economics has played its part in this movement, its contribution has been limited for the most part to the empirical studies and practical activities of economists. "Neoclassical price theory," however, "has not" contributed to this "common understanding of man and society." As was also noted with respect to the other institutionalists, Ayres is not content to limit economics to the logical implications of a few (or a single) static assumptions. Economics is instead concerned, along with the other social sciences, with the more pressing problems of the day. The most pressing problem of direct concern to the economist is the problem of social control of the industrial process and it is with respect to this problem particularly that these economists find the traditional economic analysis inadequate if not invalid.

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CHAPTER III

SCOPE AND METHOD IN INSTITUTIONAL ECONOMICS

Scope

Even a cursory reading of the above chapters would lead one to the conclusion that the problem of scope is of little direct concern to the institutionalists. In general, it could be safely said that they are not willing to define the scope of economics a priori and then to confine their work or their analysis within that limitation. It would be more accurate to say that they are prone to let the immediate problem define their field of inquiry whereas the orthodox economist will first delimit the field by giving the concept of "economics" a rather definite meaning and then proceed to the analysis within the scope as thus defined. Rather than first define the "proper" boundaries of economics and then confine one's analysis within that framework, Clark proposes that it is less important to keep inside any traditional limits than to follow our natural questionings wherever they may lead, and do whatever work we are specifically fitted for and find undone.

The reason for their widening the scope of economics stems from their insistence that the scope of the orthodox approach is too narrow and that the problems with which the economist should be concerned are wider and more inclusive than traditionally conceived. In a frank recog-

1 The charge that the scope of institutional economics is rather wide and inclusive is a common one. For a view similar to that developed above, comparing institutional to orthodox economics, see, Kenneth H. Parsons, "Institutional Economics--Discussion," AER, May, 1951, p. 83; and George H. Sabine, "The Pragmatic Approach to Politics," The American Political Science Review, Vol. XXIV, No. 4, (1929).

2 Clark, "Toward a Concept of Social Value," Preface to Social Economics, p. 60; italics added.
nition of this point, Mitchell said that

Quite literally, we cannot understand any phase of social behavior apart from all other phases. It is easy to make this admission—ours is not the first to do so; but to accept its consequences in practice and to develop a genuine program of cooperation among the social sciences is hard.3

The institutionalists, however, are willing to make such an admission and they have tried to work out a broader and more comprehensive study of the economic system. That they have not completely succeeded is readily agreed to; whether they have made substantial progress in that direction is much more readily contested. But that they have made a serious attempt to rebuild, or to build anew, so as to include other aspects of human behavior, is rather evident. It is this point which Ayres made when he pointed out that the institutionalists

have insisted, not without asperity, that economics can accommodate the new ideas of the other social sciences only by a complete overhauling. ...the economic insurgents are by no means satisfied to follow the bypaths of dynamic peradventure and perchance. On the contrary, they propose to denounce the major assumptions of orthodox theory and most particularly with respect to its objective.4

What is required according to their point of view is to broaden the base of economics so as to include the newer findings in the other social sciences and also to make economics itself more amenable to these other social sciences. It is in this sense that Commons refers to economics as a "department of social philosophy,"5 and Mitchell conceives of it as

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being "part and parcel of social psychology." Tugwell also argues that

It seems somewhat absurd to already have divided the field of social behavior into departments. There are many natural scientists who can not say whether they ought to be called "physicists" or "chemists"; but the barriers which separate economists, social psychologists, political scientists, historians, and sociologists are even more imaginary; even more obviously they owe their continuance to an academic traditionalism which can not long survive.

The point is, of course, that the social sciences are concerned with the behavior and the problems of the whole human being and the society of which he is a part; the institutionalists are proposing that in order to understand both the individual and the society, the analysis cannot proceed from rigid a priori delimitations. They are, rather, jointly concerned in analyzing the problems which Commons thinks are "as broad as the whole field of adult, sane, legally recognized human will—both individual and collective." And it is because economics is concerned with such a broad field that Commons admitted that he had never been able to think of the various social sciences as separate fields of history, political science, law, economics, ethics, and administration.

J. M. Clark once noted that many other economists argue that his work lies "outside the realm of economics altogether." But in Clark's view, such an opinion is simply based on an unshakable conviction that economics is necessarily confined to the subject of exchange value, and

8 Commons, Economics of Collective Action, pp. 118-119.
this being the case, "there is little more to be said, save that exchange value described in terms of itself is meaningless." His argument is that the subject-matter of economics is equally concerned with human motives and desires, with the problem of idle capacity, with "a description of the way economic forces work, and a study of the economic efficiency—or inefficiency—which results." It is his contention these problems cannot be analyzed nor understood if attacked within the traditional confines of exchange in the market. Thus it is that he argues that if economic analysis is limited to marginal utilities and marginal costs, "then it simply does not lay hold on the deepest economic issues of our time." It is thus that he insisted that the economist be free to follow his own natural questionings wherever they may lead and that quest will then define the proper boundaries or the scope of economics.

These "questionings," as we have noted earlier, are primarily concerned with the general field of economic planning or economic reform. And it is specifically in this context that Mitchell pointed out that the economist who participates in planning policies finds that he must consider factors that are not commonly regarded as strictly economic. Mitchell recognizes that this is the very reason cited by many persons why economists should stand aloof from practical activity; they simply are not competent to advise outside of their own speciality. Mitchell argues, however, that the other alternative is preferable—that the economist must associate himself with the other social sciences, that he must

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9 Clark, "Toward a Concept of Social Value," p. 60.

10 Clark, "The Socializing of Theoretical Economics," The Trend of Economics, ed. by R. G. Tugwell, p. 73.

11 Clark, "Toward a Concept of Social Value," Preface to Social Economics, p. 54.

broaden his analysis and his inquiry so as to include them. The basic reason for this, according to Mitchell, is the incompleteness and the inapplicability of "felicific calculus, declining utility, or curves of indifference." Does such a broadening as Mitchell envisions mean the demise of economics? Mitchell agrees with those who fear that it does— if "one takes conventional economic theory to be the common bond." He and the other institutionalists, however, are not willing to take such a definition as being the common bond or the primary concern of economics. They are rather concerned with the larger problems of control, planning and economic reform, and they insist that with such a concern as theirs', they must free economics from the narrow, static approach which is characteristic of orthodox price analysis. Thus it was that Clark argued that the economist cannot afford to limit his study to the organization of these forces by the one agency of price under free exchange, or to measure human ends solely by their expression through the one channel of a price-determining demand. Formal theory, however, has so far made but few and incomplete excursions beyond the realm of static and price-governed assumptions, and the need of an overhauling based on broader premises is more than ever a pressing one.

13 Ibid.
14 Ibid., p. 410.
15 Allan Gruchy in an appraisal of Mitchell pointed out that his pioneering attitude had led him "to look beyond the confining boundaries of orthodox economic thought, and to follow paths which promised more light on the economic problems of the first half of the twentieth century." Review of Wesley Clair Mitchell, The Economic Scientist, AER, June, 1953, p. 398. Also see, Edwin E. Witte, "Institutional Economics as Seen by an Institutional Economist," Southern Economic Journal, October, 1954, pp. 133-135, for a similar view of the question of proper scope for economic analysis.
Limiting economic analysis to price theory, Clark argues, is a serious handicap to an understanding of the effectiveness and efficiency of the economic system as a whole. As he noted in one article, "price is one agency" for serving the economic interests of human beings, but it is not the only agency; a fulfilled economics must therefore free itself from the narrow premises and assumptions of this traditional approach.

The basic reason why this broadening is necessary, according to Clark, is that we live in an "economy of control with which our intellectual inheritance fits but awkwardly." He notes that both the demand for and the need for control has "grown with amazing speed," that in every direction "experiments are being tried." Economic theory, however, is still in its infancy having been formulated in a quite different era; regulation and control are still regarded as exceptions outside the field of economics by many economists. But Clark insists that

It is good and necessary that new proposals should be first treated as exceptions to economic theory, for they need to be settled on their own merits, but it is not good that they should remain permanently unassimilated.

The point is of course that Clark thinks that the problem of control and regulation need to be assimilated into economic theory, but that if it is to be done, then economic theory itself must necessarily be broadened; the scope of economics and the problems with which it is concerned must be made to fit the twentieth century.

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18 See, for example, his "Economics and Modern Psychology," ibid., pp. 94ff.
20 In one place Clark pointed out that "as an economist" he was directly concerned with such problems as the "balance of private action
What, then, is the institutionalists' answer to the problem of scope? Generally speaking, he would say that this is a question that cannot be answered a priori; he would prefer, as Clark put it, to follow his own natural questionings wherever they may lead. It is for this reason that Mitchell insisted that the main point of departure for economics is a study of institutions, not only because the institutions themselves are of primary importance, but because with such an orientation the economist would always keep an "historical perspective" and "by so doing he opens vistas enticing to future exploration, instead of suggesting a closed system of knowledge."\(^{21}\) Ayres likewise explains the importance of institutions for the scope of economic analysis when he pointed out that economic activity includes activities of both a technological and an institutional character:

and these two sets of activities not only coexist but condition each other at every point and between them define and constitute the total activity of "getting a living." It is the problem of economic analysis to distinguish and understand these factors, and their mutual relations, and the configurations of economic activity for which they are responsible.\(^{22}\)

Commons also indicates the general scope of "twentieth century" economics when he insists that many different agencies including corporations, labor unions, and governments create working rules (i.e., insti-

(Cont.) and governmental power: between freedom and coercion." (Alternative to Serfdom, Oxford: Blackwell, 1948, p. 3.) While such problems are removed from the purview of orthodox economics, they are examples of the types of problems of concern to the institutionalist. It is also interesting to note that Clark considered Keynes' most important contribution was that he opened up problems for analysis which heretofore had been taboo for the respectable economist. (Ibid., pp. 92-93.)


tutions which define economic activity) and that "these working rules are the main subject matter of twentieth century economics." He emphasized the central importance of control and regulation for the scope of economics when he pointed out that

Economic investigations in the twentieth century, with its revolutions, credit cycles, unemployment, and repeated wars, must take into account many different aspects of activity. Otherwise research and investigation cannot be brought to full use in the collective effort to control the great and violent "forces" of today.

Elsewhere he says that "it is questioned whether the American system can cope with these new political and economic problems." If they are to be solved, however, it must be through the modern technique of "social science investigation and the administration of collective action." It is the administration of collective action which is "the meeting place of social philosophy and the collective action that distinguishes present-day economics from the nineteenth century abstract philosophies." And perhaps even more important, these social science investigations, according to Commons, are "not mere search for truth, they are designed to improve conditions." And from this approach, economics must necessarily widen its scope so as to include these various and diverse activities and conflicts "which characterize modern economic action."

23 Commons, Economics of Collective Action, p. 129.
24 Ibid., p. 73.
25 Commons, "Twentieth Century Economics," Journal of Social Philosophy, Vol. V, p. 38. Kenneth Parsons specifically recognizes the basis for Commons' sweeping approach to economics when he pointed out that "He has tried to formulate an analysis which would give a foundation for the coordination of the social sciences, especially law, ethics, economics, and political science. This coordination is made necessary by planning, by administrative and legislative direction of economic affairs--by social control generally." ("John R. Commons' Point of View," reprinted in Commons, The Economics of Collective Action, p. 344).
This broadening of the scope of economics stems from, and is a necessary corollary to, the institutionalists' definition of economics. As they see it, economics is not limited to the logical derivation of a given set of assumptions relative to the behavior of prices. It is rather the concerted attempt to understand the workings of the economic system with the aim of its improvement. To achieve this end, they insist a knowledge of price behavior, no matter how thorough or refined, is simply not enough because there is no such thing in the real world as the economic behavior as described by the traditional definition of economics. The distinction of economics from political science or sociology or anthropology is only a traditionalism. These so-called fields or departments are separated only by artificial barriers—barriers which must be broken down if any workable understanding is to be achieved. The institutionalists are of course not alone in this view, and were in fact rather strongly influenced by the writings of John Dewey who has insisted that man's problems are not economic or political or sociological. The point would seem to be that they do not recognize economics as a separate "field" or department of the social sciences. The traditional barriers which supposedly delimit one of the social sciences from the others simply do not exist from the criterion of working relevancy.

26 See for example his Reconstruction in Philosophy, pp. 151ff and his Intelligence in the Modern World, pp. 1059-69. The following quotation points up both the above point and also another instance of the influence of Dewey which will be developed more fully in Chapter Five—that truth is not sought for its own sake, but for its social significance, or in Commons' words, "to improve conditions." "When all is said and done in criticism of present social deficiencies, one may well wonder whether the root difficulty does not lie in the separation of natural and moral science. When physics, chemistry, biology, medicine, contribute to the detection of concrete human woes and to the development of plans for remedying them and relieving the human estate, they become moral; they become ... something to be pursued not in a technical and specialized way for what is called truth for its own sake, but with the sense of its social bearing, its intellectual indispensableness." (Reconstruction in Philosophy," pp. 158-9) This general point of view is important for the epistemological foundations of the institutionalists' concern with planning and reform.
Instead they see the social sciences as having a common objective and economics as being merely a particular emphasis, a facet, or an aspect of the total.

This general point of view is, of course, often admitted by the orthodox economist. He insists, however, that the only way to achieve knowledge is by specialization: that the economist must pursue his own field, the sociologist his, the anthropologist his, that no one man can become a specialist in all fields. This is obviously true if taken in only one sense—the traditional one. The institutionalist would insist that the alternatives are not necessarily limited to becoming a specialist in economics or a specialist in all the social sciences (or if he could not achieve that, a failure in both). He would argue that the important point is that the scope of economics has become merely traditional; that it is today arbitrarily and unnecessarily limited. The institutionalist insists that the limits cannot be ascertained a priori but depend upon the problem and the circumstances at hand. Thus in one sense what he is arguing is that economics must branch out to include many of the findings in other social sciences and that just where he should stop cannot be arbitrarily decided. This is due to his conception of economics as being essentially a problem-solving science and that the nature of the problem will decide what are the factors that have to be included and which are to be excluded. Such an approach to economics will inevitably obscure or extinguish the limits of each of the social sciences as they have been traditionally conceived.

Professor Sabine recognized this difficulty and pointed to one possible solution when he discussed the influence of pragmatism on the social sciences:

Behavior is not in fact departmentalized with anything approaching the sharpness of the lines we have been
accustomed to draw between legal and moral, economic and political. These categories are merely traditions, perhaps we might even say stereotypes, which originated solely as somebody's effort to classify social phenomena. Even though they may have served a useful purpose, their validity never consisted in anything but their utility. They correspond to nothing that exists, and it is worth asking, at least whether they are still useful. ...

Undoubtedly this presents a difficulty; for the limitation of human capacity compels us to be specialists, whether this fits the facts or not. What the pragmatic method seems to drive us to, however, is not specialization along the traditional lines which were supposed to divide politics and economics and law, but rather to the isolation of the relatively separable problems and an attack upon them along converging lines of economic, political, and legal study. Such problems would expect to be located by what Professor Dewey would call "tensions" that occur in the functioning of the social apparatus. The area that a study would have to cover would depend on what we found to be relevant to the problem under examination.

The point would be that rather than attempting to become either a specialist in the traditional field of economics or in all of the social sciences, the specialization would take the form of following the lines dictated by a particular problem. This certainly applies to much of the work done by the institutional economists. Thus Mitchell undertook a study of the business cycle—as a problem which in itself was worthy of deep probing and analysis, and a problem which was much too complex to be analyzed within the traditional confines of price theory. Likewise Ayres has devoted considerable attention to the problems of business cycles and wars and their connection with the institutional and social setting of twentieth century America. It was in like fashion that Hamilton explored the complexities of the patent system, and of the coal industry. Commons chose for himself the problem of industrial strife and spent many years investigating it and making recommendations and suggestions for improving the situation. And Clark devoted his attention to the problem of social

cost-keeping and the social significance of idle plant capacity. Each of these problems is of far-reaching significance. Each has social, political, legal, ethical, moral, historical, as well as, economic aspects. And it is the view of these economists that such problems could neither be understood nor solved by simply adding together the findings of various specialists. They must each be approached as a total problem. It is, as Mitchell pointed out, "the economist who participates in planning policies finds that he must consider factors that are not commonly regarded as strictly economic." The important point is that these were problems which these economists deemed to be of serious importance to the community as a whole; and in their view, they were social problems which could not be understood nor solved within the limits of orthodox price analysis.

It should also be noted that these economists departed from the traditional field in yet another way. They did not conceive their function to be that of merely pointing out the means of achieving specified ends, of waiting for someone else to say "this is a problem," and then attempt to show what the alternative means were to achieve that given end. Rather, they, as economists, felt it their duty to point out what were the problems and how they might be solved. Such a view of the function of economics and of the economist differs from the orthodox, for it conceives of the economist as being an active participant in the functioning and the improvement of the economic system. And it is this view, basic to the whole institutional school, which accounts for its breaking down of the traditional boundaries in the social sciences.

Are the institutionalists, then, merely utopian do-gooders? What,

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one may ask, do ethics and morals, questions of social betterment, have to do with economics? Most of these economists would probably not deny the charge of being utopians, reformers, do-gooders—whatever the exact charge may be. It would seem apparent that they consciously sought to improve the economic system of the United States. But, then, is not orthodox economics utopian? The important point is that it is not so apparent precisely because it is orthodox. The utopian idealism of traditional economics is obscured simply because it has become so thoroughly institutionalized. Free competition, an unfettered market system, non-interference of the government, are all ideals, all unfilled aspirations. The essential difference would seem to be that the institutionalists are somewhat abandoning the precise ideals which have unconsciously permeated economics since the time of Adam Smith and are proposing to enlarge and widen these in light of the abilities and the deficiencies of our current economic system, in the light of changing ideals and aspirations. This is certainly the point Clark was making when he emphasized that

The most important thing to preserve is the thing which gave his thought its power and vitality; namely, its grasp on the interests of his time to which the institutions of the time gave inadequate opportunity and expression. And since these interests and institutions have changed greatly in a century and a half, our answer must correspondingly change. 29

The ideals with which the institutionalists are concerned are not those eternal verities relating to The Good, The True and The Beautiful, but rather those relating to the institutions and working rules by which we order our economic behavior. It is not a question of what is Good, but whether those institutions are always adequate for a changing economy.

It was in this sense that Tugwell insisted that our rules of conduct must

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necessarily change as industrial conditions change, that

The good in mediaeval life is an insufficient good for our life; the good of the eighteen-nineties is an insufficient good for our life; and it may be that the good of the twenties will be an insufficient good for the thirties—certainly it will be if the great shifts of control and productiveness which now seem imminent materialize at all.30

As it turned out, the "good" of the twenties was indeed an insufficient good for the thirties. The importance of ethics for economics, says Tugwell, is the recognition of "ethics as an instrument of progress, not a series of inspired and permanent rules of conduct."31 He further argues that

All this means that economics is ethical, inescapably and rightly so; and it means that the ethics involved is an experimental ethics. The economists of the new generation are making tentative proposals which they believe to be hopeful, but which they desire above all to see tested and verified or disproved. If the suggestions prove to be good they ought to be put into practice, and not only put into practice but also become a part of our codes of conduct.32

In support of his point, Tugwell cites the work of Hamilton in the "Theory of the Rate of Wages," which is clearly an attempt to show why wages should be increased, and Mitchell's work on the business cycle which is "conditioned upon and motivated by" the belief that business cycles are bad and that they can and should be eliminated. Summing up his view as to the interrelatedness of ethics and economics, Tugwell adds that

It is impossible to see any way to separate economics from ethics; and it seems further that, even if it

31 Ibid.
32 Ibid., pp. 419-420.
could be done, it would be nothing less than disastrous for a young science that hopes to become more and more important and useful and for a world which needs to have the work of the economists directed toward the betterment of its material situation.33

Ethics, then, are not merely eternal rules of conduct; some of them may be that, but according to Tugwell, ethics is a much wider and more inclusive term. They are an instrument of progress in that those suggestions for improvement of the economic system are necessarily ethical and it is the function of the economist to make those suggestions. It is in this sense that he defines economic theory as the "actual formulation of these suggestions for change, these solutions of problems."34

Commons likewise sees no dualism between economics and ethics. For purposes of analysis, investigation, and control, the two are inseparable. Any supposed distinction between the two is based on what Commons considers to be a false premise for the social sciences, namely, the atomistic view that society is no more than the sum of the individual members. This mistaken and archaic view, however, is not one of a society, "but of a population of molecules."35 Commons insists that in this case, as in all other aspects of the social sciences, the individualistic approach must be abandoned. Social problems and their solutions are not to be discovered by beginning with the individual and then by some algebraic manipulation arriving at a society. And thus it is with the problem of ethics and its place in economics, a problem which Commons long considered to be important for he has repeatedly declared that one of his main objectives was to work out the basis for the social analysis and the corre-

33 Ibid., p. 420.
34 Ibid., p. 418; see also his "Theory and Practice," AER, March, 1923, pp. 107ff.
35 Commons, Institutional Economics, pp. 225ff.
The confusion and difficulty associated with these two concepts and their relationships, Commons traces back to Jeremy Bentham, who reduced ethics to pleasure, pain, happiness, and repudiated duties as painful. This repudiation is repeated in the diminishing pleasure and increasing pain of Bentham's successors, the hedonistic economists. Later economists, basing their theories on prices instead of feelings, continue to eliminate ethics as only feelings—under such names as ethical taste, moral sense, emotions, sentiments—all of which are, of course, only individualistic.

It is this "individualistic," subjective, brand of ethics which has dominated the thinking of economists, and which has rightly been ignored and eliminated from their field. It is the social ethics which are to be included, in the view of the institutionalists.

Commons, however, points out that even from a social point of view, there are two types of ethics to be considered. The one to be excluded from economics is that which Commons terms as the "unattainable, such as, we may say, heaven, communism, anarchism, universal brotherly love, universal virtue, universal happiness." If, however, the ethical ideal is attainable, "then a theory of the attainable is as much a scientific theory as is a theory of the attained." This second meaning of social ethics concerns that which is best for society among those which are attainable; it is that which "ought to and can be attained." That which ought to be attained is of course an ethical problem; it is also the problem of the economist in Commons' view, for in his haste to eliminate both the individualistic subjective brand of ethics and the unattainable social ethics from economics, the economist has also eliminated the attain-

36 See, for example, ibid., pp. 56 and 714ff.
37 Commons, Economics of Collective Action, p. 197.
38 Commons, Institutional Economics, pp. 741, 743.
able social ethics. It is this omission which Commons feels is in need of repair. When we shift from the individual to the social point of view and eliminate the unattainable, then there is no distinction between economics and ethics for the central core of Commons' thinking is "that kind of associated action which is both ethical and economic," which he names "collective action in control of individual action." Commons argues that economists have in general missed the significance and the importance of ethics in economic analysis because "they have not, as yet," constructed or adopted for purposes of analysis and investigation this "mental tool of the history of collective action." Thus in Commons' view, that which is good for the social group is ethical, and in the twentieth century, this ethical good is best achieved by the associated action which Commons refers to as "collective action in control of individual action." It is this collective action which has been eliminated from the scope of economics and which must be included if economics is to serve the needs of mankind—-if economics and ethics are to be correlated for the purposes of social analysis.

Methodology

Methodological controversies are probably no longer as important, or at least not as heated, as they once were. It is generally recognized that the methodology to be employed in the social sciences is not a matter of induction versus deduction versus the historical versus the quantitative method. This is probably due to the recognition that no one method is suitable alone, and that in fact, all must be employed with varying

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40 Ibid., p. 197.
The decline of such controversy is also due to the increasing recognition that as the problems of the science of economics become more complicated, as we at the same time come to know more and more about the economic system, human psychology, etc., we are less and less inclined to be dogmatic or doctrinaire about questions of methodology. This was basically the position of Mitchell when he noted that methodological controversies had declined in importance. This, he said, was "not a symptom of declining fervor," it is rather, "because increasing concern with factual observation is breeding in us a more scientific and a less dialectical temper."\footnote{Mitchell, "Economics 1904-1929," Backward Art of Spending Money, p. 405.} Whether or not there is less controversy over such questions among most economists, the general position of the institutionalists on these matters is not too clearly understood and in fact is often misunderstood. They have made some rather trenchant criticisms of orthodox methodology and, in the context of their own view of economics, they have made some rather important contributions.

Generally speaking, their position on this question would be much the same as noted above on the question of scope—that the orthodox position has been too narrow and too rigid to permit the economist to do the task which is specifically his to do. Thus in Mitchell's opinion, "human behavior is such a complicated affair that those who seek to understand it can ill dispense with any line of attack."\footnote{Ibid., p. 413. Alfred North Whitehead once pointed out that "there is no groove of abstractions which is adequate for the comprehension of modern life." And he went on to add that "it is very arguable that the science of political economy, as studied in its first period after the death of Adam Smith (1790), did more harm than good. It destroyed many economic fallacies, and taught how to think about the economic revolution then in progress. But it riveted on men a certain set of abstractions which were disastrous in their influence on modern mentality." (Science and the Modern World, pp. 283, 285.) The institutionalists would agree rather completely with this statement.}
the institutional position on methodology, however, is rather difficult
to find, for the primary reason that they, with rare exceptions, did not
explore this question specifically. Such being the case, it is necessary
to infer from scattered remarks what their position is as a whole. Another
difficulty stems from the fact that their views on methodology are very
closely tied to their basic epistemological views; and these views are
important enough to be explored in a separate chapter. These economists
did, however, make some important criticisms of the traditional methodology
and lay out what they considered to be new points of view, so that a con­
sideration of these should be in order at this time.

Perhaps the most important criticism is basically one of original
assumptions or premises; that while the logic of the traditional economics
may be flawless, the assumptions from which the conclusions are deduced
are too narrow to give an adequate insight into the complexities of the
modern economy. Thus Clark argued that if economic theory is to be re­
molded to fit present needs, much more time will be devoted to "establish­
ing its assumptions on a realistic basic," and less time devoted to
"elaborating the minutiae of the laws that may be deduced from them."43

Commons specifically contrasts his position with the orthodox posi­
tion as "the conflict between deductive and comparative reasoning." The
former method "rested upon the isolated assumption of self-interest. Com­
plexities are eliminated because a single assumption is isolated."44 Com­
mons holds that the more fruitful method is the comparative method, the
searching for significant similarities and differences in activities." The purpose of this search is as a "method of investigation to isolate

44 Commons, Economics of Collective Action, pp. 124-5.
similarities." The other, according to Commons, is "the method of generalizing—arriving at universals." And the important difference is not an abstract preference of Commons for the one method over the other, it is the fruitfulness of each in solving problems, and of locating difficulties. It is the comparative method which is the more fruitful, the more useful, in the realm of "public administration and policy [For it] results in directing attention to particular conflicts and problems." It is the usefulness of economics as a contribution to public administration and policy which is the important criterion in Commons' view. Public policy must look from present conditions to the future, "whether the object be the creation or the realization of opportunities." This shift in orientation from the past or present to futurity requires ... a shift in the method of reasoning from the deductive method of a single efficient cause and its effect limited by predetermined "laws" and to a comparative method of seeking similarities and differences within a complex of future indeterminate causes, purposes, and events.45

It is the important and necessary relation of economics to practical application which also leads Commons to criticize another methodological device of orthodox economics—the assumption of ceteris paribus, which may be necessary in logic, but is misleading in practice. Commons' comparative method is an attempt to "tie together all the changing activities"; it is the attempt "to get away from our logical fallacies of taking only the part that we are interested in and neglecting the whole that concerns everybody."46

This concern for the whole, and not the parts, is another important methodological distinction between the institutionalists and the orthodox

46 Ibid., p. 138.
The distinction is not that the institutionalist thinks the whole is more important than the orthodox economist, but rather in the procedure to be employed in understanding and analyzing the whole. Generally speaking, the methodological procedure of traditional economics is an additive one; it begins with the parts and then proceeds to the whole. The institutionalists, on the other hand, reverse this technique. They insist that the whole is not the sum of its parts, rather it is the existing structure of the whole which determines the characteristics of the individual parts; causation is conceived as flowing from the whole to the part. This is the distinction which to a considerable extent is responsible for Gruchy's characterization of these economists and their work as being "holistic." As he says,

They take the American economic system to be an evolving process or going concern any one part of which is to be fully explained only in the light of its relations to the whole dynamic economic complex.47

The point is that they insist it is a methodological mistake to take one part at a time, holding the others equal, and then by some process of addition, arrive at an understanding of the whole. In fact, Tugwell holds that this is perhaps the core of the institutionalists' dissent, that they maintained a "fundamental disbelief in the 'one thing at a time' procedure." Quite to the contrary,

They conceived the world as a complex, actually-going mechanism, which had never been understood because both the tools

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47 Modern Economic Thought, p. 5; for a more complete discussion of his characterization of holistic, see ibid., chapter I and especially pp. 4-5, 23-28. The English philosopher Alfred North Whitehead, is one of the chief exponents of this general philosophical position. He argues for the substitution of the concept of "organism" for the individualistic one, insisting that an individual item cannot exist apart from the system of which it is a part, that indeed the individual item is but an abstraction because "the reality is the process." (Science and the Modern World, p. 106; see also Chapter Four where he discusses this concept of organism more completely.)
for work and the impulse to genuine analysis had been
smothered in the velvety folds of classicism. One
thing at a time was not good enough, because no one
knew the important things to choose as well as because
other things never remained equal.48

Rejecting this procedure, then, the institutionalists thus accepted the
economic system's "complexity and flux as the very subject-matter of
their study." They chose to start with the whole, to start with the
complexity and the flux of the economic system, holding that only by fol-
lowing such a methodological procedure could they achieve the understand-
ing necessary for control and guidance of the economy. It is in this
sense that Clark, in his presidential address to the American Economic
Association, envisioned the future work of the economist as being in a
"very different setting": it would be in a world of "trial-and-error
experimentation," rather than the "atmosphere of relative stability and
certainty in which our predecessors operated."49 These economists are
taking the evolving, complex, economic system as their starting point,
insisting that it is the whole complex which determines the character
of the individual item and not the other way around (an understanding
of the economy is not to be achieved by an analysis of the economics of
the firm). With such an orientation, they are not willing to confine
themselves to the stricter methodological procedures of the orthodox
economist.

Clark once pointed out that "the core of scientific method lies,
not in induction nor in deduction, but in taking account of all relevant

48 Tugwell, "Human Nature and Social Economy," Journal of Philosophy,
August 14, 1930, p. 455.

49 Clark, J. M., "Past Accomplishments and Present Prospects of
American Economics," Preface to Social Economics, p. 431; reprinted by
permission from AER, March, 1938.
factors and excluding none." This statement would come as close as any to summing up the institutionalists' point of view on this subject. Although it must be admitted that by itself, it tells us very little because the crucial problem is just what are the "relevant facts." It is the general framework within which this problem is to be answered that we discover the more positive contributions to the institutionalists' position on methodology.

Essentially what this means is the goal to uncover economic truth, but in the opinion of the institutionalist, what is "truth," depends considerably upon what it is the investigator is seeking. Thus, R. F. Hoxie, in one of the few discussions by an institutionalist on the question of methodology, raises an interesting point:

We are prone to think of scientific knowledge as an end in itself—to speak of scientific spirit as simply a desire to know—to understand the existing situation—but 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 better to realize some human purpose, therefore we seek to comprehend the existing situation from the standpoint of the purpose or interest in question. The scientific interest is therefore not merely academic but is in a sense practical—practical in the sense that it is an interest in understanding for the sake of the life of the society or the individual.

The institutionalist does indeed wish to control certain forces, namely, the economic ones. And it is his view of this purposive nature of the science of economics which in large measure distinguishes him from the orthodox economist. He does not conceive economics as "an end in itself," but rather would agree with Hoxie that it is purposive; that it is "undertaken in furtherance of some definite, vital, human interest."


And it is from this point of view that we can understand Clark's statement of the scientific method—"taking account of all relevant facts and excluding none." As noted above, what are the relevant facts, is the crucial problem. What is relevant from one point of view, will not be relevant from another. The factors which are relevant to the traditional economist are those which influence the determination of price. For the institutionalist, it is those factors which are relevant to a particular problem, or which are relevant to the over-all problem of control or planning. And as such, the breadth of relevant facts is of necessity going to be much broader for the institutionalist than for the price theorist. And thus it is seen that the institutionalists' view on methodology is closely related to his view on scope; in a sense, the two are inseparable.

Thus it is that the question of what is the institutionalists' position on methodology is not so easily answered as one might hope. It is not the simple question of induction versus deduction. It is a question of taking account of all of the relevant facts; it is a question of building a science of economics which will serve as a basis for directing, controlling, and reforming the economic system. Thus the methodology stems from a much more comprehensive point of view than we have so far covered. It is determined by their view of what economics is all about, what its function is; it is likewise determined by their general philosophical orientation concerning relativity, revolution, and a wide number of subjects, including their philosophy of knowledge.
CHAPTER IV

BASIC CONCEPTS AND PHILOSOPHICAL ORIENTATION

Statics v Dynamics

In the closing pages of the Distribution of Wealth, J. B. Clark warned that the development of a dynamic economics was still in its infancy, that his treatment of it was both brief and tentative because "the task of developing this branch of science is so large that the execution of it will occupy generations of workers." With this statement, the institutionalists would find little to disagree. In fact, his son, John Maurice Clark, once pointed out that

Unlike statics, dynamics is in its infancy, and very possibly is destined to remain in that stage, on account of the fact that conditions change so fast and so endlessly that analysis and interpretation cannot overtake them. The area of agreement concerning economic dynamics would probably end at about that point, however. This is due to a somewhat different conception as to the nature of dynamic economics and its relation to statics. Thus the elder Clark stated that as dynamics

...becomes more and more nearly complete, it will enable men to announce with increasing confidence the kinds of change that are to be expected in the future.

Yet, whatever movement the dynamic division of economic science may discover and explain, static laws will never cease to be dominant. All real knowledge of the laws of movement depends upon an adequate knowledge of rest.

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3 Clark, J. B., op. cit., pp. 74, 442. Concerning the importance of static laws for economics, and whether, in the view of the institutionalist, they "will never cease to be dominant," Professor Gambs noted that,
The institutionalist would argue that economics will never be able to predict the future, at least not in the sense of what they consider to be the important aspects of economic life because "conditions change so fast and so endlessly that analysis and interpretation cannot overtake them." They would also disagree with the elder Clark as to the dominance of statics over dynamics—that "all real knowledge of the laws of movement depends upon an adequate knowledge of rest." Quite to the contrary, they would insist, if they were to cast their argument in such terms, that any knowledge of rest would depend upon an adequate understanding of movement.

The distinction between the two schools on this point, however, is more than just an argument concerning the prior importance of one over the other; it stems basically from a rather different point of view as to the nature of dynamics. Generally speaking, the orthodox economist views dynamics as some variant of statics (all knowledge of movement depends....). That is, dynamics would be conceived as being a series of static equilibrium positions, or the transition between them. Or it might be defined as the study of overall fluctuations in income and/or employment. The general framework of any such view, however, would be the analysis of certain variables within the market mechanism as it is to be understood by price theory. The basic point of departure in this dynamics of the price system is the same as in static theory, that being an individualistic orientation; an understanding of the whole is reached by beginning with the individual.

(Cont.) in his opinion, "Some institutionalists would probably say that their branch of economics bears the same relation to standard or orthodox theory that contemporary physics bears to Newtonian physics. ... It is, perhaps, impossible to feel much kinship with Newton when you know about X-rays and when you are unable to say whether the primary stuff of a rock is matter or whether it is energy. Similarly, few institutionalists feel much kinship with Ricardo, Jevons, or J. B. Clark. ... It is plausible to argue that the static categories of both types of theory are not unlike, but that when standard theory begins to reach out into the realm of dynamics, it parts company with institutional theory, which is essentially a dynamic theory." (Beyond Supply and Demand, pp. 4-6).
It is this basic assumption or point of view which helps differentiate the institutionalists' conception of dynamics from the traditional. It was in this sense that Commons contrasts "individualistic economics and institutional economics" as the difference between "static economics and dynamics." And it is also this basic difference in orientation which Clark emphasizes when he noted that "dynamics must not be cast in static molds"—that the shift to dynamics "will necessarily view society as an organic whole rather than a mechanical summation of the results of theoretical acts of independent 'free exchange.'"

The institutionalist would have little use for traditional static analysis, mainly, because if not inapplicable, it does not lay hold of the significant problems of the economic life of society. And he likewise would have little use for orthodox analysis cast in dynamic terms, because it is still cast in a static mold; it is no more than an extension of the same point of view with the addition of a few variables. In the last analysis, the institutionalists would hold that only their economics is truly dynamic, for it is only theirs which actually takes over-all change into consideration (not merely change in the price system) and that any pretense of orthodox economics to the claim of dynamics is false. The issue of course is not which of the two methods is truly dynamic. The issue is over the definition of the term, and generally speaking, the institutionalist uses the term to mean "realistic."

"Realistic," in the sense that economic analysis should primarily be concerned with the problems of the economic system—an economic system which is in a continual state of evolutionary development, which is itself

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4 Commons, Economics of Collective Action, p. 52.

dynamic—and further, that a dynamic economics is cast therefore in policy-oriented terms. J. M. Clark is the only one of the institutionalists actually to use the terms static and dynamic to any great extent, and he variously defines dynamics as being concerned with "actual conditions,"\(^6\) or with the "actual world,"\(^7\) or that dynamics is basically "realistic economics"\(^8\) and that it is essentially an "enlargement of the scope of economics."\(^9\) It is thus that Clark insists that the economist cannot carry the "static hypothesis" into "the dynamic study of the actual world."\(^10\)

What the institutionalists are attempting to do is to reorganize economic theory to make it more compatible with our modern, highly dynamic economy. And they insist that if this is to be done, then the assumptions, the preconceptions, and the tools of orthodox economics, which are largely static in nature, must be abolished. As an abstract speculation about the behavior of prices under various assumed conditions, the orthodox analysis is satisfactory; but as a basis for the social control and guidance of the economic system, it is quite unsatisfactory. As Clark put it, social control of the economy "cannot be accomplished through the static conception of independent demand schedules or the 'static' ideal of marginal utility."\(^11\)

The basic difference, however, between the two systems of thought

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\(^7\) Clark, "Toward a Concept of Social Value," Preface to Social Economics, pp. 58-59.


\(^9\) Ibid., p. 199.

\(^10\) Ibid., p. 58.

centers around the nature of change and what it is that actually changes. In a recent study of institutional economics, David Hamilton holds that this is in fact the distinguishing feature of institutionalism. As he put it:

The classicist has always viewed change as discontinuous and has held that it is a re-establishment of an equilibrium or a state of quiescence. ... The institutionalist, on the other hand, considers change to be a part of the economic process. Instead of viewing the economy as a fixed system periodically prodded into movement to a new point of non-motion, he holds that the economy is at all times undergoing a process of cumulative change, and that, the study of economics is the study of process. 12

This is the basic issue concerning dynamics. It is not a question of one system being more dynamic than the other. Orthodox economists have insisted that they are concerned with dynamics, that they too are interested in change. The orthodox economist of course has been concerned with change as manifested in the price system itself, or with a quantitative change in output which was induced by quantitative change in price. The price system is seen as the central and basic characteristic of the economic system and their analysis is therefore confined to price movements. The concept of change with which they are primarily concerned, and which they label dynamics, is the shift from one static equilibrium of prices to another static equilibrium of prices. Illustrative of this point, consider the following two definitions:

static laws furnish the natural standards to which the incomes of economic groups and those of laborers and capitalists within tend to conform. Dynamic laws, on the other hand, account, first, for the variations of actual incomes from these natural standards....Static forces set the standards, and dynamic forces produce

...dynamic economics is the study of the path by which a set of economic quantities (i.e., prices and quantities) reach equilibrium, within a static framework.

Although a half-century separates these two quotations, they are almost identical. Through the mechanics of the price system the separate and isolated acts of individuals become, by means of some transubstantiation, an economic system. Change takes place in the quantities of prices, but never in the price system itself. Dynamics, in the traditional view, is concerned with the introduction of various "foreign" elements—population growth, invention, etc. These price changes, however, are purely mechanical in nature; every shift away from a normal (or equilibrium) position, brings into play opposing forces which start a chain reaction which forces prices back to their normal position. These changes in price, however, do not bring about a change in the substance, in the basic characteristics, of the economic system itself. As David Hamilton summed it up:

In this view of things, society is a permanent structure composed of landlord, capitalist, and laborer, and economic change is nothing more than movements away from and back to equilibrium—which is nothing but a balance of sensations of pleasure and pain to the nth degree of nicety.16

But the fluctuations of price about an equilibrium position do not, in the view of the institutionalists, contribute much toward an understanding of our complex and highly dynamic economic system. This was certainly the point which Walton Hamilton made when he discussed the development of

13 Clark, J. B., The Distribution of Wealth, pp. 36, 32.
15 Hamilton, David, op. cit., p. 130.
Hoxie's economic thought:

His material environment was that of contemporary America.

A continent, possessed of unparalleled resources, had just been subjugated by the aid of the machine process. An aggregation of trades, processes, and markets was being forged into an industrial system. Change was everywhere. Wealth was increasing; accumulated capital was being invested and new capital values were emerging without investment; old industries were being expanded and new ones were springing up; the advance of technology was making obsolete productive processes which a moment before were new....

Changes such as these defied expression in quantitative terms. The adjective "normal" seemed strangely inappropriate when applied to any aspect of the situation; in the perpetual newness of things all must be "natural" or all unnatural. Nor could the situation be expressed in static terms. It offered no disposition to return to an "equilibrium" after a disturbing "force" had disarranged the gear. It might well be that a series of actions and reactions was tending toward such a consummation; but if so, they were of negligible importance, for they could not stem the onward tide of the highly dynamic forces which were drawing industrial society into an unknown future. ... The less important "being" was swallowed up in the more important "becoming."

The basic difference between the institutionalist and the orthodox economist in this respect is in the nature of change itself. Rather than viewing change as a discontinuous process--the re-establishment of an equilibrium, they take it to be the dominant feature of the economy; this "complexity and flux" are the features to be analyzed and understood. They are typical, not atypical. This is one of the main reasons that institutionalism has been labelled evolutionary or Darwinian. Ayres thinks that this is what Veblen meant when he made Darwinism the crucial issue of modern economics. It is not a question of change but of what changes. Orthodox economists have insisted, with considerable bewilderment, that they are just as

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interested in change as anybody else.\textsuperscript{17}

And this insistence, Ayres agrees, is true. But the important problem is still that of what is the nature of change and how it is to be viewed. The orthodox economist, because of his view of statics and dynamics, has fettered his economic analysis with a dualism which has destroyed its validity. This dualism, Ayres argues, was originally that of the "actual" and the "normal," but more recently it has shifted to the "dynamic" and the "static."

Contemporary economists maintain that the distinction is only an analytical device, but it is certainly more than that. Under both sets of names one of these states is existential and the other is ideal in both metaphysical and moral senses. If one be defined as the realm in which change is occurring and the other as a "stationary state," it is at once apparent that change is regarded as something of a nuisance and as an essentially transitory condition. How otherwise could the analysis of imaginary "stationary states" be regarded as a useful analytical device? It is useful only on the supposition that the static world is the real world and the dynamic world phenomenal in the metaphysical sense.\textsuperscript{18}

Ayres argues that this dualism is basically responsible for the inability of orthodox economics to lay hold of the problems of our times, that it is this dualism which is responsible for the split between theory and actuality—the split which shielded the tradition (the theory) of the price-governed, market-organized, economy from the impact of economic reality, from the impact of economic change. This split between theory and actuality was "first defined in terms of competition." With the growth of big business, however,

it was easy for economists to attribute any shortcomings of theory of the market-organized economy to that difference rather than to any inherent defect of classical theory. If the economy failed to behave as classical theory led us

\textsuperscript{17}Ayres, "Fifty Years' Development in Ideas of Human Nature and Motivation," AER, March, 1936, p. 236.

\textsuperscript{18}Ayres, The Theory of Economic Progress, p. 103.
to expect, that seemed to be sufficiently explained by
the prevalence of monopoly. Thus instead of re-exam-
in ing their theory, economists were able to point out the
very great discrepancy between the competitive conditions
which the theory assumed and the "restraints of trade"
which monopoly had brought.

Toward the end of the nineteenth century the split
between theory and actuality was further widened by the
recognition of "static" and "dynamic" states. ...it
seemed to economists that the perfect adjustments (which
they now proposed to call "equilibrium") promised by clas-
sical theory might prevail were it not for the fact that
the economic scene is continually changing. Thus they
were able to attribute the discrepancy between theory and
actuality to the disturbing factors of change, rather
than to any defect of the theory of the market-organized
economy.\footnote{\textit{Ayres, The Industrial Economy}, pp. 346-7.}

This distinction between statics and dynamics is, then, a misleading one.
And it is for this reason that the institutionalists object to the dyna-
mics of orthodox economics, insisting that only their analysis is truly
dynamic for it takes change and flux as being the normal state of affairs,
rather than as a deviation from or to some equilibrium position. It is
from this point of view that another important concept of the institution-
alists is to be understood: their evolutionary point of view.

\textbf{THE EVOLUTIONARY POINT OF VIEW}

Considerable reference has been made in the pages above to the in-
stitutionalists as having an evolutionary outlook, that they are trying
to build an evolutionary economics. In an important sense of the word,
the distinction between dynamics and statics, as viewed by the institu-
tionalist, is contingent upon this evolutionary or genetic frame of refer-
ence. Indeed, it might be said that any understanding of institutionalism
would depend upon an understanding of their evolutionary frame of refer-
ence. Thus it would be important to turn our attention to an examination
of this particular facet of institutionalism. Immediately upon embark­
ing upon such a quest, however, we are confronted with a rather import­
ant difficulty. This is the fact that the institutionalists to such a
considerable extent took this point of view as a basic premise, as a
starting point, that they do not write extensively upon it per se.

The use of the term and the influence of the concept of evolution
is traceable to a considerable extent to Veblen. To many, institutional
economics is synonymous with evolutionary economics—whatever the latter
term may mean. Professor Homan, as was pointed out earlier, said that

An institutional economics, differentiated from other
economics by discoverable criteria, is largely an intel­
lectual fiction, substantially devoid of content. Fifteen
years ago it was a faith...the faith was that an adequate
organon of economic thought could be achieved by the accum­
ulation of data and analysis of it in terms of an evolution­
ary process.20

As was noted in Chapter One, this view is to a large extent a mistaken
one. The evolutionary point of view is important, but institutional
economics is not merely the "accumulation of data and analysis of it in
terms of an evolutionary process." As a matter of fact, Homan in an ear­
lier work, though ostensibly discussing the changed outlook of the science
of economics, gave a much more accurate picture of institutionalism:

And so in economics, the search for sweeping generaliza­
tions is being subordinated to finding by what chain of
circumstances our present institutions came into being,
how they at present work in detail, whither they are car­
rying us, and by what means and to what ends we can direct
their future development.21

This is a much more accurate picture of institutional economics and of
the importance of the evolutionary point of view, than is his later

21 Homan, Contemporary Economic Thought (New York: Harpers, 1928),
p. 460.
Veblen, of course, had considerable influence upon the institutionalists with his insistence that economics must adopt the evolutionary point of view. It was his view, that for anything to be labeled as scientific it must adopt this point of view. Or in his words, the prime postulate of modern science is that of consecutive change, and consecutive change can, of course, not come to rest except provisionally. By its own nature the inquiry cannot reach a final term in any direction.22

It was his contention that any science which is modern is of necessity an evolutionary science. And he points out that the men of science who are "proud to own themselves 'modern'" find fault with economics for its pre-evolutionary bias, its concern with taxonomy, with definition and classification.23 Before the impact of Darwin, Veblen held that the animus of science was of how things had been in the presumed primordial stable equilibrium out of which they, putatively, had come, and how they should be in the definitive state of settlement into which things were to fall as the outcome of the play of forces which intervened between this primordial and the definitive stable equilibrium. To the pre-Darwinian economists the center of interest and attention to which all scientific inquiry must legitimately converge, was the body of natural laws governing phenomena under the rule of causation.24

An evolutionary science, on the other hand, Veblen insisted, "is a close-knit body of theory. It is a theory of a process, of an unfolding se-

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24Veblen, "The Evolution of the Scientific Point of View," The Place of Science in Modern Civilisation, p. 56.
Economics, therefore, must abandon its mechanistic, pre-Darwinian orientation. It "must be a theory of the economic life process of the race or the community."  

Veblen was not critical of everything in classical economics but he did point out repeatedly that it had not continued to progress as had the other sciences. In one of his rare complimentary remarks concerning classical economics he noted that "Of the achievements of the classical economists, recent and living, the science may justly be proud...." But still they fail by the criterion of the evolutionist's for "conceiving their theory in terms alien to the evolutionist's habits of thought."  

Economics ... still shows too many reminiscences of the "natural" and the "normal," of "verities" and "tendencies," of "controlling principles" and "disturbing causes" to be classed as an evolutionary science.  

The standpoint of the classical economists, in their higher or definitive syntheses and generalisations, may not inaptly be called the standpoint of ceremonial adequacy. The ultimate laws and principles which they formulated were laws of the normal or the natural, according to a preconception regarding the ends to which, in the nature of things, all things tend.  

The scheme so arrived at is spiritually binding on the behaviour of the phenomena contemplated. ... The formula is then tested by comparison with observed permutations, but the polarisopic use of the "normal case"; and the results arrived at are thus authenticated by induction. Features of the process that do not lend themselves to interpretation in the 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  

26 Ibid., p. 237.  
27 Ibid., p. 218.
economic taxonomy. 28

This normalized scheme of analysis is the basis for the dualism which, according to Professor Ayres, has shielded economic theory from economic reality. It has enabled economic theorists to attribute deficiencies in the economic system to deviations from the normal, to disturbing causes which have no place in pure theory. The disturbances, the deviations from the idealized system, are thus excluded from study, from analysis. The institutionalist, on the other hand, takes these disturbances as the very subject-matter of economics; he is interested in ascertaining what are the forces at work in the economy as a whole, not just those forces as reflected in the price system.

The importance of this evolutionary point of view is in large part the problem to which we directed our attention earlier: that of statics and dynamics. The orthodox position has essentially been that the concept of evolution did not have any place in economics because economic analysis was concerned with problems for which change in the larger sense of the word had no importance. Their concept of change was confined to changes within the price system itself and their economic analysis was therefore timeless. The reason for this stems primarily from the peculiar shape and color which David Ricardo gave to economics. As Mitchell saw this problem:

Ricardo took for granted (1) the physical environment in which he lived; (2) the social organization, including the industrial technique, of his day and people; and (3) the human nature of his contemporaries as he understood them. He did not analyze this familiar world beyond explaining a few technical points in the mechanism of the money market, which lay readers could not be expected to know. Still less did he consider the problem of how social organization or human nature had reached their current

28 Ibid., pp. 224-226, passim.
Mitchell went on to point out that Ricardo "thought of social organization as something that had changed materially in the past, but had reached maturity and would not change materially in the future." With that as his basic preconception, Ricardo concentrated upon these social relationships as manifested in the price system with respect to the problem of the distribution of income and price (or value). And it was this orientation which has become one of the major preconceptions of orthodox economics since that time. Assuming a fixed social organization, they have directed their attention to the movements of prices within that social organization and by so doing have prevented their economics from being cognizant of change in the total social-economic structure—the structure of which economics is but a facet.

Professor Gruchy listed what he thought were the three main reasons why orthodox economists have failed to incorporate evolutionary change in their economic analysis. In the first place, the science of economics was a well-established discipline long before "evolutionary concepts had become a part of the intellectual furniture of most men." And secondly, many have been proud of the exactness which the science of economics afforded, an exactness which had not been attained in the other social sciences. "As a result the scope of economics has been unduly narrowed to accommodate those who refuse to go beyond equilibrium analysis." The third reason he cites, is from the viewpoint of the institutionalist, per-

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30 See, Hamilton, David, op. cit., for a more complete discussion of these points.
haps the most important:

a study of this type of change has not always been wel-
come by certain groups in the community. ... It can
hardly be denied that the very close connection between
economic change and economic reform has tended to push
the study of economic change into the "sociological pen-
umbra" of Lionel Robbins and other so-called orthodox eco-
nomists, where many significant economic matters have been
conveniently impounded and soon forgotten.31

Most institutionalists would not accuse orthodox economists, as Gruchy
seems to do, of consciously keeping economic analysis in non-evolution-
ary terms in order to appease certain groups in the community. But that
its attention to the static analysis of price movements, its unduly nar-
row scope and its concern with equilibrium, has prevented orthodox eco-
nomics from laying hold of the issues and the problems of the times, the
institutionalists would all agree. And this, as has been pointed out ear-
lier, is the major criticism of orthodox economics. It does not suffi-
ciently concern itself with the problems of economic planning, with eco-
nomic reform. Again to quote Gruchy:

Where the economist considers change to be a matter of
growth, development, and evolutionary expansion, eco-
nomics turns out to be a broad social science which is
more capable of coming to grips with the major economic
issues of the twentieth century.32

When the economist considers change to be solely a matter of price
movements, he is thereby limiting the applicability of his economic analy-
sis in the broader area of social-economic reform. The institutionalist
argues that the inadequate attention given to the evolutionary point of
view cripples economic analysis in the field of policy because it confines
attention to the normal and thereby omits or ignores change, flux, growth,
development, in the economic system itself. It was from this point of

31 Foreword to ibid., pp. 7-8.
32 Ibid.
view that Veblen criticized economics for not having adopted the evolu-

tionary point of view:

But it is precisely in this use of figurative terms for
the formulation of theory that the classical normality
still lives its attenuated life in modern economics; and
it is this facile recourse to inscrutable figures of
speech as the ultimate terms of theory that has saved the
economist from being dragged into the ranks of modern
science. The metaphors /normality and propensity/ are
effective, both in their homiletical use and as a labour-
saving device—more effective than their use designs them
to be. By their use the theorist is enabled serenely to
enjoin himself from following out an elusive train of cas-
ual sequence. He is also enabled, without misgivings, to
construct a theory of such an institution as money or wages
or land-ownership without descending to a consideration of
the living items concerned, except for convenient corrobora-
tion of his normalised scheme of symptoms. ... Features of
the process that do not lend themselves to interpretation
in the terms of the formula are abnormal cases and are due
to disturbing causes.33

The institutionalist argues that it is the disturbing causes which are
the very problems of analysis. In an era of swiftly and rapidly moving
events, it is the function of the economist to analyze this flux, to
keep his economic theory in close contact with it. In his view, the
only "normal" aspect of our economic system is change and flux—but not
merely the change of prices to a new equilibrium position which is, in
the opinion of the institutionalist, nothing but a remnant left over from
the pre-Darwinian era. Professor Sabine pointed out this non-normalized,
non-equilibrium, aspect of Mitchell's study of the business cycle. No-
where does Mitchell find a "normal" condition of business which tends to
reinstate itself to some equilibrium position. "Nothing is normal except
change" and it is the change which must be understood if we are to do any-
thing in the area of control. In Sabine's words:

The stream of civilization has no end, and it has no
single cause. Consequently, the condition in which it

33 "Why is Economics Not an Evolutionary Science," The Portable Veblen,
pp. 226-7.
happens to find itself at any given date—the particular constellation of institutions and practices which happens to prevail—is no more normal than that which prevails at some other date. The only abiding fact is change, and change is a resultant of all the causal factors, physical, psychological, historical, and social, that operate in the given situation. There is no state of equilibrium, no balance of economic forces, which forms a standard or norm.\textsuperscript{54}

Orthodox economic analysis, however, did take the general social organization, the industrial techniques, which were extant in Ricardo's day as being fixed. It has confined itself to changes within the price structure of that fixed social and industrial organization. It is this general orientation which the institutionalists label as non-evolutionary; it is this restriction which they insist seriously cripples its effectiveness in coming to grips with the issues and problems of our times. Ricardo clearly recognized this facet of his own economic theory when in a letter to Malthus he said:

> It appears to me that one great cause of our difference in opinion on the subjects which we have so often discussed is that you have always in your mind the immediate and temporary effects of particular changes, whereas I put these immediate and temporary effects quite aside, and fix my whole attention on the permanent state of things which will result from them.\textsuperscript{55}

Ricardo was not interested in the temporary changes; he was seeking to establish the universal and permanent laws of price and distribution. He had no concern for the social structure of his day, where it had come from, or where it was going. The important point, from the view of the institutionalists is not Ricardo's unduly narrow scope, but of the mainstream of economic analysis that has followed Ricardo's example.

This use of Ricardo as an example is not to be taken as a severe

\textsuperscript{54} Sabine, George H., op. cit., p. 888.

\textsuperscript{55} Letters of David Ricardo to Thomas Robert Malthus, 1810-1825, p. 127.
indictment of him. We are often prone to think of earlier economists, such as Ricardo, as being conservative; such a judgment, however, is in terms of our own times and our own standards. Judged by his day and by the problems of his era, Ricardo was a radical, anxious to change and to improve the social-economic system as he knew it. He was indeed an active and ardent reformer, cognizant of many of the problems of his day and anxious to solve them if possible, and if not, at least to improve the situation. The public debt, money, banking, the corn laws and agricultural problems, are well known examples. He soon came to be one of the more respected members of parliament because of his penetrating analysis of and his independent judgment of the many controversial problems. And in large part because of his influence, economics wielded considerable influence. As Mitchell pointed out:

Never, in fact, has political economy enjoyed such popular favor and intellectual prestige, never has it exercised such practical authority as in the two generations that followed Ricardo.56

Ricardo was seriously concerned with the more pressing problems of the economic system of his day and set about to analyze them. To be certain, he is to be criticized for his hasty conclusions, his sweeping generalizations. And he is in the view of many (especially the institutionalists) to be criticized for asking the wrong questions. The major criticism, however, is to be laid against those economists who followed Ricardo. They took his economic principles as being timeless, as being universal; while they contained a few errors, some mistakes in logic, a few minor repairs would solve all major deficiencies. The institutionalists, how-

ever, take serious issue with that line of development:

Economists who took this line might be technically right in every one of their contentions; it matters little whether they were right or wrong. What does matter is that by taking this line they lost the most powerful incentive to further achievement. If economics does not attempt to explain the concrete facts of economic life, then all that Ricardian economics needed was skillful exposition, the correction of minor lapses, and certain extensions along the original lines. Economic truth had been found and would abide as long as logic lasted, no matter what paradoxical developments appeared in the world of railways, centralized banking, trusts, and trade-unions; no matter what facts the statisticians pressed, no matter what anthropologists learned or how the psychologists shifted their ground.37

In the view of Mitchell and the other institutionalists, however, economics does attempt to explain the "concrete facts" of economic life, and Ricardian economics therefore needed more than a few minor corrections and extensions. Economics is not, in their view, timeless or universal; the correction which they have prescribed for this deficiency has been the adoption of the evolutionary point of view.

In attempting to explain the "concrete facts" of economic life, the institutionalists argue that the evolutionary point of view is important for the light it sheds on what is a concrete fact. This is the part-whole relationship to which reference has been made earlier, or the philosophy of holism, as it has been named. Facts or data, according to this interpretation, do not speak for themselves; an isolated fact or datum is meaningless since it takes its meaning and its significance from a larger, evolving whole of which they are but a part; meaning and significance are seen to stem from the whole to the part. This is the significance which Veblen saw in the Darwinian revolution—that Darwin had explained "species in terms of the process out of which they have arisen,

rather than out of the prime cause to which the distinction between them may be due. It is this point of view which he insisted economics must adopt: that the activities of the individual are to be explained by the larger cultural whole, and not vice versa as the orthodox economist was (and still is) attempting to do. This whole, this process, is itself an evolving, changing one. The economist therefore must consider antecedent and consequent to understand the immediate problem which calls for analysis and solution. This is the genetic or evolutionary concept which Clark has described as

explaining things in terms of the conditions out of which they arose. And a genetic economist would naturally be one in whom this element is so fundamental as to give him a sense of the relativity of all institutions to the circumstances of their origin. To this the modern mind adds the idea of endless evolution, not directed by rational purpose toward any preconceived end nor explainable by a tendency toward any ultimate "natural" system. ... Indeed there is no outcome that can be called ultimate.

As has been noted earlier, this evolutionary approach of these economists does lead them to deny the validity of any natural or normal state of affairs. To them the only thing which could be described as normal is change itself, and it is thus that they direct their attention to change and flux, regarding it as typical. They have, in Tugwell's words, accepted "its complexity and flux as the very subject-matter of their study." By studying the process itself, emphasis is placed on the antecedent and the consequent, and a place is thus held open for the novel.

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Reality is seen to be in the process itself, not in the parts which are but abstractions of the process. And individual item cannot exist apart from the larger system to which it belongs except as an abstraction. And to approach reality by way of the individual item is what Whitehead termed the "fallacy of misplaced concreteness." It commits a fallacy by attempting to find reality in the abstraction.

Thus it is that the institutionalists object to the methodological approach of the orthodox economists who attempt to find meaning, attempt to understand the economic system, by analyzing what an individual firm would do under certain hypothetical circumstances. It is a fallacy because it is an attempt to understand reality by analyzing the abstraction under hypothetical conditions. By studying the economic system as an evolving, ever-changing process, the institutionalist is recognizing and giving primary importance to the new and the different. As Walton Hamilton said of Hoxie's economics: "Since his environment was a developing one, his problem was ever changing." The mechanistic, additive approach of the orthodox economist they insist leaves no room for evolution or change in the economic system as a whole--only in the price system--for it confines attention to the isolated parts.

It is of course from this standpoint that the institutionalists argue that the whole is greater than the sum of its parts:

The persistence of the naive reasoning in which wholes are regarded as the simple sums of parts is more astonishing in social matters than elsewhere. ... It seems not difficult to understand that the prosperity of society is something more than the total of individual pros-

41 An important corollary of this will be explored in a later chapter in which the relationship of the individual to society will be examined.


perities: that social behavior is not to be predicted from knowledge of individual psychology. Critics have argued that it is impossible for a whole to be greater than the sum of its parts, but in so arguing they have missed the central point. Such a statement does not refer to a quantitative summation; it refers rather to a qualitative recognition that the part is only an analytical abstraction. It is the evolving process which is real; and it is within that evolving process that the institutionalist proposes to find the meaning and the understanding necessary for the social control of that process. It is this influence to which Homan referred, though perhaps unwittingly, when he noted that the emphasis in economics was shifting to an analysis of how our present system and its institutions came into being, how they work, where they are carrying us, and "by what means and to what ends we can direct their future development."

THE CONCEPT OF RELATIVITY

Another facet of the institutionalist's thinking which is closely related to, but distinct from, the evolutionary point of view, is what has generally been referred to as the concept of relativity. Viewing the economic system as an evolving, changing phenomenon, they insist that economics as a body of thought must likewise change and evolve. Their economics represents a shift from a search for universal, everlasting laws governing an ordered universe, to a relativistic, temporal analysis; there are no universal generalizations applicable at all times.

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45 J. C. Smuts, the originator of the term "Holism," said that "The so-called parts are in fact not real but largely abstract analytical distinctions, and do not properly or adequately express what has gone to the making of the thing as a whole." (Encyclopedia Britannica, Vol.XI, p. 640).

46 Homan, Contemporary Economic Thought, p. 460.
in the real world, there are rather, specific problems in a changing and complex world which require specific answers. It was this facet of Hoxie which Walton Hamilton also noted when he pointed out that the rapidly changing social and intellectual environment "impelled him to the conclusion that the methodology of orthodox economics was out of harmony with the dominant intellectual thought of the times."47

Economic theory, in the view of the institutionalist, must be made more relevant, less universal and generalized. This view stems primarily from their insistence that there is no normal state of affairs, that economic conditions and problems at any one time reflect the interaction of the prevailing institutions and technology of that particular society. As was pointed out earlier, it is their belief that the static-oriented analysis of the orthodox economist is not necessarily wrong, but that it does not come to grips with the significant issues and problems of the times. Thus it was that Mitchell held that for decades economic theory and economic problems had little more in common than the binding of the textbook.

When, however, economic theory is made an account of the cumulative change of economic behavior, then all studies of special institutions become organic parts of a single whole. ...economic theory will cease to be a thing apart from applied economics, because economic theory itself will deal with genuine issues....48

The institutionalist accepts as the basis for a sound and workable economic theory Mitchell's observation that

One of the results of any survey of the development of economic doctrines is to show that in very large


measure the important departures in economic theory have been intellectual responses to changing economic conditions.49

The fact remains, however, that within the mainstream, economics has attempted to meet changing conditions, the new problems which arise, with basically the same tools, the same concepts, the same methods and techniques. The important departures have not occurred within this mainstream of economic thought for it has remained essentially a deductive science concerned with the determination of price in a market economy. (Almost no attention has been devoted to that market mechanism itself—its role as an allocating, coordinating, distributing, device and the efficiency with which it performs these various functions; it is but one of the "givens" in orthodox economics.) And it is this narrow concern which the institutionalists insist unduly hinders orthodox economics from being relevant to the changing and evolving problems and issues.

J. M. Clark noted what he considered to be the primary issue when he said that

Economic theory should be actively relevant to the issues of its time and it should be based on a foundation of terms, conceptions, standards of measurement, and assumptions which is sufficiently realistic, comprehensive, and unbiased to furnish a common meeting ground for argument between advocates of all shades of conviction on practical issues.50

Clark finds that there are two bodies of economic theory which are separated by "more or less thought-tight compartments." One of these is the orthodox analysis of the determination of price, the mechanism of "free exchange in a perfect market."

It searches for laws governing levels of equilibrium in


such markets, and in this broad sense is static. In its view of human nature and of social-economic institutions it either assumes them to be static or tries to frame its static statements so as to admit, passively, the existence of dynamic facts but make no further changes in the static statements and hence make no active analysis of dynamic forces and changes in human nature and institutions. 51 This has much the same effect as assuming them to be static.

Clark distinguishes a second body of economic theory which he calls "social economics," and within which he obviously includes himself:

Here belongs John Stuart Mill's discussion of property and communism, of land tenures and of the sphere of government, and also the Essay on Liberty. Adam Smith's treatment of public expenditures falls in this division, also a large part of J. B. Clark's Philosophy of Wealth, and the writings of Veblen and Hobson.52

The materials of price theory, he notes, are selected, not with a reference to furnishing a rounded interpretation of the business system capacity for fit-to-the movements that are afoot in the ... construction, but with reference to their capacity for fitting into ... a logical "closed system."53

Clark emphasizes that the important point for economic theory is that "each generation of economists succeeds to a new assortment of practical problems to which its doctrines are to be applied." But if economics is to be significant and relevant, if it is to come to grips with these practical problems and issues which change with each generation, then the search for laws governing equilibrium within a static framework must give way to, or at least be subordinate to, the other body of economic theory— that of "social economics." We must "strip dogmas of their universality and interpret them in relation to time and place."54

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51 Ibid.
52 Ibid., p. 281.
53 Ibid., p. 282.
54 Clark, "Adam Smith and the Currents of History," Preface to Social Economics, p. 175.
to concede that the static equilibrium analysis may have been "supremely relevant" to the economic problems of a century ago... but for the problems of today it is the other phases of guidance that claim attention."55 The pressing modern problem calling for attention is that of control and regulation, the guidance of the economic system; and it is for this purpose that the institutionalists hold that traditional economics is inadequate.

Another facet of the concept of relativity in institutional economics is in the role assigned to the "givens" and the "variables." Orthodox economics, taking as its central problem the analysis of prices, has consistently allotted many factors to the realm of the "givens." These were the factors which were deemed of no importance for economics since they did not influence the determination of prices. Among the more important of these factors were the institutions of society, its social organization, the prevailing technology, human behavior or human nature, the distribution of income, the acceptance of all costs which are variable to the individual firm as being variable costs to society, and finally, the efficiency of the market mechanism itself. The institutionalist demurs at this delineation and proposes instead to treat these various factors as variables, as being items which should be taken into account, as items which are to be analyzed. Thus it was that Clark insisted that the institutions of a society cannot be taken "for granted as if they were supreme ends in themselves;" they are rather to be treated as "means to social ends."56 They are, as Ayres puts it, among the more important analytical tools

by which the institutional economist proposes to show how the modern economy functions and how it can be improved.\textsuperscript{57} The orthodox economist also chooses to ignore human nature, insisting that such an analysis is not pertinent to economics, while the institutionalist insists that this is one of the major areas to be explored by the economist. In attempting to explain the economic system, the orthodox economist shows how the variable costs of the firm influence its activities and then goes on to the conclusion that such activities give an accurate picture of the economy as a whole. The institutionalist on the other hand points out that while such costs as labor are variable costs from the point of view of the firm, they are fixed or constant costs from the point of view of society and any correct social accounting would so regard them.\textsuperscript{58}

What is at issue of course is the difference in outlook of the two economists. The one holds that the meaning of the economy is to be found in the interplay of and the determination of prices and for such a view, an understanding of human nature, the institutional setting, the distribution of income, etc., are not pertinent. He merely takes them as given. The other views economics as being primarily concerned with the control, regulation, and improvement of the economy and hence insists that all such factors as these are indeed relevant. As Commons said, an economic "policy" is to promote national prosperity and an "economic theory is an explanation of all the forces at work" affecting that policy; "a theory criticizes, modifies, or justifies the policy."\textsuperscript{59} The problem as seen by

\textsuperscript{57}See for example, Ayres, "The Co-ordinates of Institutionalism," AER, May, 1951, p. 52.


\textsuperscript{59}Commons, "Wage Theories and Wage Policies," AER, March, 1923, p. 112.
the institutionalist is such a complex of interdependent factors, of so many and diverse relativities, that an understanding of them may proceed only from the inclusion of them in the analysis.

The influence of the concept of relativity can perhaps best be stated by Commons:

The modern theory of relativity has superseded the older ideas in physics of the absolute distinctions between time and space, and between the investigator and the materials investigated; it is also urgent that we see the relativities in social action and investigation.

Social affairs are also relative to time. Everything I have taken up in my investigations seems to have had its character determined by what went before or by something that came after.60

This last comment of Commons, it will be noted, bears a striking similarity to the general concept of evolution. These two ideas—that of relativity and of evolution—are of course closely interrelated. They point up, for the institutionalist, the interrelated nature of the economic system, that any specific event is a product of what has gone on before it, that it is determined by the general institutional structure of society at that particular time, that rather than having universal and never-changing laws and principles which will provide an insight and understanding into the economy, it is necessary to tackle the problem in terms of the overall "Gestalt" of which the problem is but a facet.

Thus one of the more important attributes of this general concept of relativity, of a social Gestalt, is the necessity of integrating any planning with that Gestalt. As Gambs humorously comments, "In certain situations, we have been told, it would be wise to use pink and blue double-acting self-canceling scrip instead of money."61 But as Gambs

60Commons, Economics of Collective Action, p. 117.
61Gambs, Beyond Supply and Demand, p. 75.
rightly notes, if such a plan is not congruous with the general institutions of the society, with the social Gestalt, then we should abandon the plan. This idea of a social Gestalt, of the interrelatedness of the various facets of society, of the relativities involved, serves in one of its more useful functions as an integrating device. It helps focus attention on the many faceted institutional characteristics of the economy rather than narrowing attention to the analysis of price movements. It therefore necessarily becomes an integral part of the general orientation of the institutional economist who is aiming at developing an economic theory for purposes of control and who insists that such a theory cannot be achieved within the confines of the analysis of price movements in various assumed market conditions.

The importance of relativity is also seen in the necessity of recognizing and accounting for the influence of the economist himself in the subject of his inquiry. It is a breakdown of the traditional distinction between subjective and objective, insisting to the contrary, that the "thoughts, ideas, and investigations of the social scientists are a part of the materials of their own investigations." Thus, one important philosophical influence of the concept of relativity has been to point out the importance of taking the observer or the reporter into account, that "much more depends upon the point of view of the observer than was formerly thought." It is the recognition that the economist is a product of his past experiences, his attitudes, his prejudices, his preconceptions, and that his economic analysis is inevitably going to be conditioned by his peculiar orientation. Any thorough understanding of

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62 Commons, Economics of Collective Action, p. 117.
the work of any one economist must therefore recognize this influence as much as possible in order to discount it. This is simply another way of saying that economic theory is a product of the times and circumstances under which it arose and that it is likewise a product of the person or persons involved. As Clark put it, "to understand any forceful writer and to make the necessary allowances, find out what it was against which he was reacting."64 This is perhaps a rather strong way of putting the idea, but the important point is that economic theory is not a dispassionate, objective account of the economic system. Economic theory arises from the need for readjustment, from the shortcomings of the traditional way of conducting economic activities; and for a more precise understanding of economic theory, one should therefore know the circumstances under which it arose.

This point of view has been explored in recent years by many psychologists and philosophers as a problem in perception. The general conclusion has been that perception, whether it be visual or social perception, is not a mere recording of the outside world. It is rather a two-way relationship, a mutual product of both the viewer and the viewed. The so-called "objective" qualities such as size, shape, and distance, do not exist in their own right in the object; neither do they exist in the mind of the viewer. They do instead result from the mutual interaction of both. It is in this sense that Commons argues that the economist should take cognizance of the "active, participating mind" in his economic theory. This is true, according to Commons, from two points of view. First of all, we should take account of

the economist himself, for his thoughts, ideas and investigations are, or become, an integral part of the results. Also, economic theory should view human activity as the result of this active participating mind, a mind which is not content to let matters take their own course, but which can and does give direction to events by separating the strategic and controlling factors. Economic change and development are seen then to be a result, not of "natural" selection, but rather of "artificial" or "purposeful" selection—the rejection of those practices, habits, and institutions which are an impediment to economic development. And it is the economist's function to appraise these impediments and point to a more satisfactory scheme. We shall return to this concept of relativity again in the next chapter in connection with the institutionalists' theory of knowledge. Before doing so, however, we should briefly turn our attention to an examination of the concept of planning as viewed by the institutional economist.

THE CONCEPT OF PLANNING

Planning to the institutional economist is a rather broad and inclusive concept. It includes the idea of control, of regulation, of direction; it includes also the idea of conscious reform of the economic system; and it also includes the idea of setting goals and how they may be attained. While it is only the latter concept which is commonly thought of as planning (probably because of the system of planning in the Soviet Union), the institutionalist insists that in any meaningful sense, it is a much broader concept.

Essentially, the issue is one of automatism versus human direction. As has been apparent throughout this study, and as will be explored more fully in a later chapter, the institutional economist rejects the concept of an automatic market mechanism which will, as if by natural law, ensure
the smooth functioning of the economic system. He insists that quite
to the contrary, societies have always planned, that they have always
consciously intervened in the functioning of the market. As Mitchell
pointed out, even laissez faire was planned. That is, it was not a na­t­
ural nor an inevitable condition; it was rather a particular organiza­
tion of society which had to be implemented in order to achieve results
which otherwise were not attainable. Thus, in Mitchell's view, after
publication of *The Wealth of Nations*, the "British government planned to
have no plan."65 This was the era of laissez faire, of reliance upon
the invisible hand. And in such a small-scale, atomistic, economy, irre­
sponsible self-interest was one possible technique of organization. With
the growing complexity and interdependency of the modern economy, however,
it became evident that this was insufficient. It was neither adequate
nor desirable for a highly dynamic, interdependent society.66 While
laissez faire may have been planned, it was never a successful plan or
arrangement. That is, it never achieved the results which society thought
were good and desirable and the result was a certain amount of tinkering
with the automatic forces from the very outset. Or as Commons put it,
the consequences of noninterference with these "natural" forces were always
deemed worse than the consequences of interference,67 and the result has
been a considerable, and an increasing, amount of this so-called interfer­
ence with the functioning of the American economy from its founding.68

65 Mitchell, W. C., "The Social Sciences and National Planning," *The
Backward Art of Spending Money*, p. 86; reprinted by permission from
Science, January 18, 1935.
68 Mitchell, W. C., "Intelligence and the Guidance of Economic Evolu­
tion," *Backward Art of Spending Money*, pp. 119ff; reprinted by permission
from *Scientific Monthly*, November, 1936.
With the growth of the economy to a mature, closely integrated and highly interdependent system, planning, control, regulation, became more and more necessary. The reliance upon irresponsible self interest to which Clark referred, was simply no longer one of the possible methods of organization. Clark emphasized this same point in a somewhat different way also:

In the past, most observers felt that central control could do no better than unplanned competition; and they focused their attention on the marvelous fact that free exchange without central planning does produce some sort of order. This may have been a proper attitude at the time, in view of the prevailing ignorance of the principles of large-scale organization, and of the nature of the problem of business depressions. But it is not a proper attitude now.69

Thus it was that planning, intervention, social control generally, had by the beginning of the twentieth century become an accepted part of the American economy. Mitchell once remarked that private enterprise had in fact become a pass phenomenon before the publication of the Wealth of Nations which was merely a "philosopher's rationalization" of existing practices. And so it was that planning and social intervention had by the twentieth century become a mass phenomenon in a nation that still "accepted the principle of laissez faire."70 And perhaps it might be said that the writings of the institutionalists are merely a philosopher's rationalization for existing practices. Indeed, many have said approximately the same thing. A. B. Wolfe, for example, noted that Mitchell


70 Mitchell, "Intelligence and the Guidance of Economic Evolution," The Backward Art of Spending Money, pp. 108, 118.
accepted as a basic principle that "Economic planning is inevitable whether we think it feasible or not. Hence we had better organize to do the job as well as we can." And in a certain sense of the word, it seems that their writings are indeed philosophic rationalizations for existing, and what they consider to be necessary, practices.

In the view of the institutionalist, orthodox economic theory has provided little which will assist in social control. And the result has been a long series of hodge-podge, hit-or-miss, ad hoc, piecemeal programs; but piecemeal, partial controls have unforeseen effects in many other areas of the economy. According to Tugwell,

This is one reason why piecemeal regulation tends to widen and why some effort at really national planning becomes a practical issue immediately upon consideration of any planning at all.72

Mitchell also recognized that

The piecemeal method overlooks the interdependence that is so important a characteristic of social processes. Change one feature of social organization and you are certain to change many other features. Some of the changes you did not plan you will not like.73

In addition to inducing far-reaching and unforeseen effects, piecemeal, emergency controls are usually handicapped by the need for quick and immediate action. We do not, according to Mitchell, make the "best use of what limited intelligence we possess" when we proceed on such a basis. The shortcomings of such a procedure were illustrated by Mitchell when he


72 Tugwell, The Industrial Discipline and the Governmental Arts, p. 201.

commented that

To design an efficient National Industrial Recovery Act is vastly more difficult than to design an efficient bridge across the Golden Gate. The one task we essayed in a fine frenzy of good intentions and rushed it through in short order; the other we performed deliberately after elaborate study of the geological as well as the mechanical factors involved. 74

Mitchell proposes that instead of this procedure, we "organize ourselves for deliberate and systematic study of social problems." The central problem, Mitchell argues, is "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. 75

And it is the function of the economist to participate in this organized social experimentation, for as Tugwell argued,

... if the social good is to be obtained, and not just here and there the good of an individual or a group, if we are to have, in this sense, progress, it can only come from a constant re-examination of ideals and constant re-direction of social forces toward their attainment. ... for industry is a social instrument which, if freely experimented with, and if directed to the uses of men, holds definite promise for the future. ... It can free mankind for whatever life seems good. It remains only to be said that an experimental economics is the condition of this freedom. 76

And it is Tugwell's opinion that it is to the economist that "we ought to look for guidance" in such matters, because

Economists are imperatively required to be social scientists in reality; and this means that they are to say what

74 Mitchell, "Intelligence and Economic Evolution," ibid., pp. 130-1.
75 Ibid., p. 127; italics added.
76 Tugwell, "Experimental Economics," The Trend of Economics, pp. 421-422.
77 Tugwell, The Industrial Discipline and the Governmental Arts, pp. 87-8.
it is the industrial system does to men and to define what it is men have a right to expect from industry. ... the economists are not providing their share of the contribution to a problem which, in its major phase, is especially and specifically theirs. The directive intelligence of our time must grapple at once with the complexities of an industrial system... Upon whose minds should this directive responsibility fall if not upon those specifically gifted and trained in the understanding of industrial philosophy and technique? 78

What, then, are the goals, the ends, toward which the economic system is to be directed? If the directive intelligence for industry is to be supplied by the economist, if this task is specifically his, what is it that he is to prescribe. Is he in other words, to become a virtual dictator, indicating what shall be produced and what shall not be produced?

In the opinion of these economists, he would not be such. As Clark put it, "we are developing at least in the direction of objective standards for deciding such questions;" we are capable of developing standards according to which we may "amend the 'standard' of the market." 79 And Ayres pointed out that

We do not hesitate to tamper with people's wants when they run athwart the productive interests of the community ... we are beginning to learn that dietary deficiency [for example] is also contrary to the same common and general interest in physical, productive health. 80

Mitchell likewise said that in his opinion welfare "is capable of being made objective and definite in reference to such matters as food, cloth-

79 Clark, Social Control of Business, pp. 199ff.
These economists do not think that this "directive intelligence" of the industrial system need be by a dictator in the sense that this direction will be merely a matter of personal whim. They hold to the contrary that with increasing knowledge and understanding, such direction may be made scientific. These are of course important and difficult problems for they do represent a view contrary to that usually taken by the economist. And they are problems which must be scrutinized before one can be expected to accept or to reject institutional economics. A more searching and inclusive answer will have to wait, however, until the end of this study at which time a separate chapter will be devoted to this whole problem, because the answer of the institutionalists to these questions is really predicated upon other major premises which have yet to be explored. A tentative summary of their position might well be in order at this time, however,

While there is some disparity among these economists on what goals or ends the economic system is to be directed toward, there is basically general agreement. Professors Ayres and Clark see the main task as providing the understanding necessary to ensure a stable, but not a static, economy. Thus Clark pointed out that

*The true objective of planning is ... regularized growth. It is the full utilization of our powers of production, which are continually growing, in order that our consumption may grow correspondingly. ... Increased production and a raised standard of living must go hand in hand; neither end can be gained without the other.*

And Ayres in similar fashion said that

*We are even beginning to wonder more seriously than ever*  

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before if it is to the economic interest of industrial society for two-thirds of the population to be ill-fed, ill-clothed, and ill-housed.... In order to produce we must consume. Economic stability and the full utilization of our productive skill are contingent on the distribution of consumer purchasing power. ... The whole idea of an economic system is contingent on the assumption that production and distribution coincide and are different aspects of one and the same thing.®®

Economic planning, Ayres agrees with Clark, is "planning for a stable economy."®® But what a stable economy is and how it is to be achieved, has been misunderstood and misrepresented by orthodox analysis:

...the first principle of all economic stability is physical stability. The stability without which civilization is impossible.... For a century and a half we have been accustomed to think of economic stability in terms of prices. But economic stability can certainly be understood in such physical terms as the relation of food supply to population, the regularity of working habits of the people, continuity of operation of machines, and so forth. ... It is this stability with which we are confronted: to seek economic stability conceived not in terms of price equilibrium but in physical terms as stability of men, machines, and operations.®®

The central concern of these economists is to ensure the stability of the economic system, to provide the understanding necessary to ensure that stability, conceived not in terms of price equilibrium, but in terms of production and employment—the "full utilization of our powers of production." Theirs is a recognition of the identity of production and consumption—that each is necessary to the other, that the two taken together are what constitute the economic system; and further, that the economic system can be made to operate more efficiently—meaning produc-

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tion and consumption can be progressively raised—only if the economist re-orient his thinking. And that is precisely what they are attempting to do—to provide the understanding and knowledge necessary for that task. The task, which Tugwell defines as being "to mold our social and economic environment so as to reap the largest possible rewards." To develop the "social control" which, according to Clark, "must be capable of progressively raising the level of mankind." It is both "irrelevant and intolerable" Clark adds, that the production of consumer goods should reach its maximum only when the community is unusually busy building railroads and skyscrapers, then to have that production

...fall to levels that mean privation when these tasks subside, though consumers continue to have just as many needs and producers continue to have just as much power (or more) to produce goods to gratify them. These irrational and destructive instabilities are the things to be eliminated.

This is the same point Hamilton made when he said that "the end of all industrial activity is obviously the enlargement of the material means to human welfare." He added, however, that we

can hardly escape the conclusion that the economic order yields far less of the wherewithal of living, leisure, and opportunity than even as a minimum we have the right to expect from it. It has served us none too well, is only partially under our control, and still presents a turbulence that awaits the domesticating touch of the future.

The economic system has then failed to meet these objectives which these

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87 Clark, Social Control of Business, p. 16.
88 Ibid., p. 455.
The economic system is only partially under our control. One of the basic reasons why it is not under our control is the traditional view of the price system as an efficient organizing device. The institutionalists insist that it is a rather inadequate organizing mechanism and they further argue that it is only one among many. They insist that it is not an automatic mechanism, that it perverts the objectives of the economic system (to progressively raise the level of mankind), and that if the economy is to fulfill these objectives, economic analysis must include more than to explain the functioning of the economy in terms of price movements. We are not so certain, says Tugwell, that "so vital a concern" as income and standards of living ought to be left to the vagaries of the market. ... The idea grows that the national income and its apportionment is a matter which ought not to be left without some social supervision. It is perhaps true that a large supply and a small demand will lower prices and that a small supply and a large demand will raise them; but it does not follow that the public interest is best served by allowing the supply of and the demand for commodities to remain completely and solely determinative. Tugwell is then agreeing with the others. The economic system is not a natural or automatic mechanism; it is, rather, a social institution, which can and must be directed and controlled to achieve societal ends. This can be accomplished, however, only if economic theory and economic analysis redirect their efforts to provide the necessary understanding and knowledge.

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90 Tugwell, The Industrial Discipline and the Governmental Arts, p. 179.
CHAPTER V
THE EPISTEMOLOGICAL FOUNDATIONS OF INSTITUTIONALISM

Introduction

An important premise of institutional economics which gives unity both of direction and of spirit is their general philosophical orientation variously known as pragmatism or instrumentalism. The influence of this philosophy is most clearly seen in their views concerning the function of and the nature of knowledge and the role of knowledge or knowing in economics. Before turning to an examination of specific facets of this general topic, a few introductory or summary remarks concerning pragmatism would seem to be in order.

This philosophical position originated with the writings and the investigations of Charles Peirce who evolved a general theory with respect to the nature of truth as applied to science, especially as related to the methods and results of scientific investigation. Peirce, a physical scientist with the Geodetic Survey of the Federal Government, had worked out what he considered to be a more fruitful approach to the physical sciences and to the establishment of the validity of scientific theories. In its more debased form, this is the position that whatever works is true and right. This, however, was not Peirce's position. He simply pointed out that if a theory "works," if it gives consistent results which are verifiable by others, then that theory is "true" in so far as present knowledge is concerned. His was basically a theory of knowledge, that is, only that which is used and is usable is "knowledge." Peirce did not expound his ideas at any great length, but did exert considerable influence upon the thinking of others, especially William James and John

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Dewey. Peirce protested the use to which James and Dewey put his ideas, however, insisting (correctly) that they made the test of truth of an idea, or of a theory, not only whether it led to the expected consequences, but also whether it led to desirable consequences.

Although it is to Peirce that credit must be given for first having formulated the basic position of the pragmatists, it remained for Dewey especially to expound and to elaborate it into a more complete philosophical position; and it is Dewey who has certainly exerted the greatest influence on the institutionalists—both in his writings and in personal contact. Clark and Tugwell were both associated with him on the faculty at Columbia. Mitchell in addition to being on the same faculty at Columbia studied under him while at the University of Chicago. Mitchell was tremendously impressed by and influenced by Dewey while at Chicago and has recounted this experience in a most interesting letter to J. M. Clark in which he said in part:

It seemed to me that people who took seriously the sort of articles which were then appearing in the Q. J. E. might have a better time if they went in for metaphysics proper.

Meanwhile I was finding something really interesting in philosophy and economics. John Dewey was giving courses under all sorts of titles and every one of them dealt with the same problem—how we think. I was fascinated by his view of the place which logic holds in human behavior. It explained the economic theorists. The thing to do was to

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1Thus Dewey once pointed out that "The readers who are acquainted with the logical writings of Peirce will note my great indebtedness to him in the general position taken. As far as I am aware, he was the first writer on logic to make inquiry and its methods the primary and ultimate source of logical subject-matter." *Logic: The Theory of Inquiry* (New York: Henry Holt, 1938), p. 9-n).

2For a discussion of these ideas and their influence upon one of the institutionalists, see Commons, *Institutional Economics*, pp. 140-156.
find out how they came to attack certain problems....

Ayres actually did his graduate work in the field of philosophy and has been a close student of Dewey since that time, contributing many articles on the significance of Dewey's ideas for economics. In one he noted that as "The economics of the past acknowledges a philosopher as its chief architect; ... so will the economics of the future." Commons made repeated references to the works of Dewey throughout his writings and was apparently especially influenced by Dewey's extremely worthwhile book: The Quest for Certainty: A Study of the Relation of Knowledge and Action. Commons' continual reference to ideas as being "springboards for action," his reference to the role of assumptions and theories as guides to action, stem from the instrumentalism of Dewey. In a discussion of the supposed dichotomy between science and art, Commons himself drew a parallel between his ideas and those of Dewey on this subject:

The method of historical science, and therefore of economic science, is the process of analysis, genesis, and insight. We reach a better understanding by attaining a better analysis and a better knowledge of sequence. ...

Historically this process is not really different from the process of natural science, if by natural science we mean, not a body of knowledge, but a process of attaining control over the forces of nature by better knowledge of the ways in which these forces operate. But such is not the usual meaning of the word science. It is rather the meaning of the Art of Engineering. "Art" supposedly differs from "science" in that it means human control, whereas science means only human knowledge. If, however, the subject-matter of natural science is looked upon not as a body of knowledge but as a body of scientists acquiring knowledge by experiment and investigation, then the distinction is

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3 Letter from Wesley C. Mitchell to J. M. Clark, dated August 9, 1928, reprinted by permission of Mr. Mitchell in J. M. Clark, Preface to Social Economics, pp. 410-416.

4 Ayres, "Instrumental Economics," an article contributed to a special issue in honor of John Dewey on the occasion of his 90th birthday, New Republic, October 17, 1949, p. 20.
"illusory"... It would seem that the way out is to change the subject-matter of science from a body of knowledge to a body of scientists. If so, then natural science becomes the same as that which economists know as the "machine process," and the universe is no longer an infinite "mechanism" independent of human will, but is a finite "machine" constructed by scientific investigators. Something like this may happen. It seems to be outlined by Dewey. He said, "Ideas that are plans of operations to be performed are integral factors in actions which change the face of the world ... A genuine idealism and one compatible with science will emerge as soon as philosophy accepts the teaching of science that ideas are statements not of what is or has been— but of acts to be performed."5

This view of Commons is significant in many respects other than the direct reference to Dewey in that it contains several instances of the influence of pragmatism upon the thinking of Commons, and as we shall note later, upon the thinking of the other institutionalists. Thus, science is taken to be "not a body of knowledge, but a process of attaining control over the forces of nature," and the universe is viewed as a "finite 'machine' constructed by scientific investigators." As we shall see, this activist view of knowledge forms the basis for the institutional approach to economic theory and economic analysis.

The Function of Knowledge

The key words in the institutionalists' view of knowledge are functional, useful, exploratory, investigative, tentative. They have accepted rather completely the philosophy of pragmatism which Horace M. Kallen defined as:

Pragmatism dissolves dogmas into beliefs, eternities and necessities into change and chance, conclusions and finalities into processes. But men have invented philosophy precisely because they find change, chance and process too much for them, and desire infallible security and certainty.

5 Commons, Institutional Economics, pp. 746-7; quote of Dewey from The Quest for Certainty, p. 133.
Pragmatism is no philosophy for them. It is, however, a philosophy for the institutional economists. They have accepted change and flux as the subject-matter of their inquiry, insisting that this change is not random or haphazard, but is subject to orderly control and direction. As Mitchell once noted,

In the life of the nation, planning plays the role that thinking plays in individual life. Both processes are resorted to typically to find ways of surmounting difficulties that occur in the course of routine behavior. Knowledge, in the view of the institutionalists, is seen to be an instrument; its function is guidance and control. Their concern with knowing and understanding is for the sake of action, rather than with an attempt to uncover universal and immutable laws or truths. And thus it is that knowledge must be useful; we never find a solution, but work out endless series of tentative solutions to ever-changing problems. Dewey has asserted that knowledge "does not come into existence till thinking has terminated in the experimental act which fulfills the specifications set forth in thinking." Knowledge, then, does not simply mirror the world; it is a changing, dynamic body of hypotheses or theories which work when tested. Thinking is a creative process which, when successful, results in reshaping the world: ideas, doctrines, theories, are instrumental to that purpose.

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7 Mitchell, "Intelligence and the Guidance of Economic Evolution," The Backward Art of Spending Money, p. 129.
Thus it is that the pragmatic or instrumental theory of knowledge is oriented toward the future, toward the novel, and not the past. We emerge into a world which is at least in part of our own making. "The thinking process," says George H. Mead, is to enable you to reconstruct your environment so that you can act in a different fashion, so that your knowledge lies inside the process and is not a separate affair. It does not belong to a world of spirit by itself. Knowledge is power; it is a part of conduct that brings out the other phase that is connected with pragmatism, especially in Dewey's statement.

This phase is its instrumentalism. What selection, and its development into reflective thought, gives us is the tool we need, the instruments we need to keep up our process of living in the largest sense. Knowledge is a process of getting the tools, the instruments.10 "Tools" or "instruments" are not to be construed in the narrow sense of hammers or lathes, but rather in the larger sense of ideas, concepts, theories, hypotheses, which in the field of economics assist in this developmental life-process of the community. Social stability is defined as keeping the basic continua of the biological-sociological-technological frame of reference continuing; what is really meant by stability is control—man's control of that continuum. Knowledge is indeed power, for the function of knowledge is to provide the guidance, control, improvement, of a changing and dynamic world. We participate in an evolving experience to which knowledge is an act of adjustment and adaptation. Knowledge, like experience, is in constant flux for its consists of continuous readjustment to changing circumstances, changing problems. Learning is therefore a dynamic rather than a reflective process; and as men endeavor to adjust their economic environment to their needs, to make it perform as they wish it to, they will learn more about their evolving eco-

nomio system and economic science will become a more useful science. It is in this sense that Mitchell said that "Knowledge is one of the resources which must be continuously renewed." It is not a fund to be dipped into occasionally; it is rather of the nature of a flow, but a flow which must be continuously used, for that very process of use increases the flow. And thus it was that Mitchell, always the good student of Dewey, also insisted

That we cannot do a perfect job until we have perfect knowledge is no excuse for not doing the best job our imperfect knowledge permits. One of the best ways to increase knowledge is to apply what knowledge we have.

Mitchell and the other institutionalists have rather thoroughly accepted the teaching of Dewey that thinking is an active, not a passive process. That it is concerned with problem solving; that it must be useful—and further, that to be useful it must be used. Ideas, facts, theories, hypotheses, are all operational. As Dewey has said,

Ideas are operational in that they instigate and direct further operations of observation; they are proposals and plans for acting upon existing conditions to bring new facts to light and to organize all the selected facts into a coherent whole.

Ideas are never self-contained entities; they are organizational devices for reshaping the environment, for resolving difficulties, for solving problems.

Institutional economics has often been characterized as being primarily concerned with problem solving. And in a certain sense this is quite

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true. These economists view the economic system and the endless series of problems that arise in the functioning, or non-functioning, of that system as capable of being solved, or at least improved upon. It is their view that the economic system is a human and social institution capable of being and needing to be guided, controlled and directed. They have accepted Dewey's position that thinking is an active process, that it is the adjustment or adaptation of new experiences and an inquiry into the meaning and consequences of experience, of ideas, of facts. Dewey perhaps made this position much more clearly when he said

The isolation of thinking from confrontation with facts encourages that kind of observation which merely accumulates brute facts, which occupies itself laboriously with mere details, but never inquires into their meaning and consequences—a safe occupation, for it never contemplates any use to be made of the observed facts in determining a plan for changing the situation. Thinking which is a method of reconstructing experience treats observation of facts, on the other hand, as the indispensable step of defining the problem, of locating the trouble, of forcing home a definite, instead of a merely vague emotional, sense of what the difficulty is and where it lies. It is not aimless, random, miscellaneous, but purposeful, specific and limited by the character of the trouble undergone. The purpose is to clarify the disturbed and confused situation that reasonable ways of dealing with it may be suggested. 14

These economists see that the function of economics is, in Dewey's words, to change the situation. Thinking, research, investigation, for them are the indispensable steps of defining the problem, of locating the difficulty, all with the aim of clarifying the situation, of resolving difficulties.

Tugwell has defined this philosophy of instrumentalism as a doctrine which is subtly subversive of any doctrine at all, even of itself as a doctrine; for pondering upon it breaks it down into method. It is not a faith to hold to,

but merely a procedure; and its chief teaching is that there is no stopping place but fact and that few facts survive for long.\textsuperscript{15}

This is contrasted with the more passive, armchair or spectator, theory of knowledge which confines itself to excogitating and extending a given set of premises handed down from previous generations (previous generations which had different problems). This given set of premises or principles, according to Tugwell, then

becomes refined and separated from the other fields of human knowledge; and it builds up a separate body of principles that is added by successive increments until it becomes a closed system of assumptions, logical developments and generalizations, rounded and whole. The increments that are added are really additions, not changes; and so that assumptions remain unchanged in a changing world.\textsuperscript{16}

These economists have not been satisfied merely to extend the logical analysis of a given set of assumptions, to the contrary, they view assumptions as tools for investigation—again illustrating the active, participating role which knowledge plays in their analysis.

We have spoken above of the view of knowledge as being a flow resource, a resource which must be continuously used and that the very process of use increases that flow. Conversely, the non-use of it decreases the flow. Tomorrow's knowledge is available tomorrow, but not unless today's knowledge is used today; today's knowledge cannot be hoarded, unused, until tomorrow. We cannot save or hoard our knowledge of what to do about improving the economic system until tomorrow; it must either be used today or wasted. And if we do use it, it will not be the


same tomorrow as today, for by using it we will improve it. This is what Mitchell meant when he noted that "One of the best ways to increase knowledge is to apply what knowledge we have." And this, the role of "creative intelligence" in economic thinking, is a point which both Ayres and Mitchell have emphasized repeatedly. Ayres summed up what he thought to be the connection between creative intelligence and economic problems and social problems when he said that:

No society ever has been or ever can be "planned." Societies grow and change, and will always do so. But in that process of growth and change creative intelligence has always played a part and will do so increasingly as knowledge and understanding grow.

And Mitchell pointed out that:

... few of us have been willing to trust what Adam Smith regarded as "natural" forces. Instead, we have cherished ambitious designs of harnessing social forces much as we have harnessed steam and electricity.

In his essay, "Intelligence and the Guidance of Economic Evolution,"

Mitchell discussed the haphazard way in which we have applied our collective intelligence to social problems in the past:

When individual enterprise produced results they did not like, they would not wait for the evils to correct themselves in the long run. Each generation has realized the force of Mr. Keynes' remark that in the long run we shall all be dead. Nor do all economic evils tend to cure themselves ... because there are social processes of degeneration that work cumulatively. The actual outcome was a mixed

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18 Ayres, The Industrial Economy, pp. 189-90.
system of control by the imperfect intelligence of individuals and control by the imperfect intelligence of governments. In contrast to this ad hoc, piecemeal, haphazard use of imperfect intelligence, Mitchell advocated "trying to mobilize the intelligence of the country for systematic and continuous study of social problems." And he foresaw, or at least hoped for the day, when economic theory would provide the framework for the collective use of the creative intelligence of the nation, when economic theory would "prove a vigorous organizer of working programs." Tugwell in a similar vein added that "When one theorizes he is thinking about ways in which our institutions can be made to work better." And theory he defined as "trained intelligences at grips with problems that are the crucial ones of modern life."

This view of the role of and the function of thinking and theorizing is rather far removed from the more orthodox view in economics. These quotes do illustrate the extent to which the institutional economists have accepted the teaching of Dewey and the other pragmatists and have incorporated these views into their economic analysis and economic theories. They have accepted the view that the role of thinking is to meet difficulties, to solve problems, to locate difficulties—and that intelligence and knowledge is what emerges from this process; they have, therefore, evolved a framework of analysis in economics which

20 Mitchell, "Intelligence and the Guidance of Economic Evolution," The Backward Art of Spending Money, p. 117; the very title of this essay, it will be noted, emphasizes the instrumentalist view of the function of knowledge and intelligence which Mitchell holds.


takes that view as its basic premise. Dewey himself rather well summed
up this point of view in its relation to economics when he said that

The problem of today remains one of using available intelli-
geance, of employing the immense resources science
has put at our disposal: a pooled and co-ordinated social
intelligence, not the mere scattered individualized in-
telligences here and there, however high their I. Q.'s may
be. ... Social control effected through organized applica-
tion of social intelligence is the sole form of social con-
trol that can and will get rid of existing evils without
landing us finally in some form of coercive control from
above and outside.24

This co-ordinated social intelligence to which Dewey refers is of course
what Mitchell means when he advocated mobilizing the intelligence of the
country for the melioration of social problems. It is what Ayres re-
ferred to when he spoke of the role of creative intelligence in economic
evolution and growth. It is the central thesis of pragmatism that know-
ledge should be useful, purposeful, functional. It is to be gained through
experience, through trial and error; it is, therefore, both experimental
and tentative. Tugwell defined this multi-faceted "experimental eco-
nomics" as an

\[ \text{economics developed on the side of theory for the projec-
tion of reconstructive programs, on the side of research}
\text{for testing and substantiation, and on the side of teach-
ing to provide new workers and new attitudes and to insure}
\text{the continuity of knowledge as well as to acquaint men in}
\text{general with the nature of problems and the general means}
\text{of their solution...}.25 \]

The institutionalists have accepted this instrumental theory of know-
ledge and its corrolary that the function of knowledge is control and that
the truth or validity of that knowledge is to be ascertained by its effi-
cacy in problem-solving, by its efficacy in the control of the economic

\[ \text{24 Dewey, "The Economic Basis of the New Society," Intelligence in}
\text{the Modern World, ed. by Joseph Ratner, p. 430.} \]

\[ \text{25 Tugwell, "Experimental Economics," The Trend of Economics, p. 421.} \]
process. They have taken as a major premise Dewey's definition of the nature of truth as given by this "experimental and functional" logic:

> If ideas, meanings, conceptions, notions, theories, systems are instrumental to an active reorganization of the given environment, to a removal of some specific trouble and perplexity, then the test of their validity and value lies in accomplishing this work. If they succeed in their office, they are reliable, sound, valid, good, true. If they fail to clear up confusion, to eliminate defects, if they increase confusion, uncertainty and evil when they are acted upon, then they are false. ...

The hypothesis that works is the true one; and truth is an abstract noun applied to the collection of cases, actual and foreseen and desired, that receive confirmation in their works and consequences.26

And it is this basic premise of institutional economics which accounts for their criticism of orthodox economics—it does not aid in clearing up confusion in the social-economic complex of the modern world; it does not assist in eliminating defects. As the institutionalist sees it, theories are but instruments to be used in the active reorganization of the economic structure, in the "removal of some specific trouble." They have accepted, as George H. Sabine clearly points out, the instrumentalist view of

> ...control as the end of knowledge and the test of its efficacy, and therefore makes purpose an ineradicable part of all thinking. It acknowledges only an ad hoc test of truth, since thinking must succeed, if at all, only in terms of the problem that calls it forth; and it sees in logic, both deductive and inductive only an apparatus by which solutions may be methodically tested.28

Truth, then, is an evolving, tentative set of hypotheses that when used, lead to the expected results. And logic is not a formalized set of rules

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26 Dewey, Reconstruction in Philosophy, pp. 128, 129.
28 Ibid.
of affirmation-negation, general-particular, inclusion-exclusion, by which certain results may be drawn from a given premise. They do not see logic solely, as one logician has defined it, as "the art and science of criticism of reasoning." 29 It is rather, as Sabine said, "an apparatus by which solutions may be tested."

**Logic as a Functional Science**

Dewey and the other pragmatists or instrumentalists do not dismiss the traditional logic of the syllogism, but they insist that it is not enough. Dewey, especially, has spent considerable effort in evolving what may be termed a "functional" logic. Titus recognized this facet of pragmatism when he said that

The new logic implied by pragmatism and instrumentalism attacks the syllogism and the assumptions underlying traditional logic. The syllogistic logic, it is said, is academic and attains certainty only at the cost of novelty and because it fails to conform to the facts of experience. If the conclusion of the syllogism follows the premises, it is not new; and if it is new, it does not follow from the premises. We gain new knowledge by taking a mental leap which involves guesswork, or a hypothesis, that is accepted if it works and rejected if it fails to give satisfactory results. 30

Dewey contrasted his view of the basic principles of logic with the more traditional view as follows:

According to one view, such principles represent ultimate invariant properties of the objects with which methods of inquiry are concerned, and to which inquiry must conform. According to the view here expressed, they represent conditions which have been ascertained during the conduct of continued inquiry to be involved in its own successful pursuit. The two statements may seem to amount to the same thing.

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30 Titus, Living Issues in Philosophy, p. 261; for a more complete examination of Dewey's views on this see his Logic: The Theory of Inquiry and Reconstruction in Philosophy.
Theoretically, there is a radical difference between them. For the second position implies, as has already been stated, that the principles are generated in the very process of control of continued inquiry, while, according to the other view, they are a priori principles fixed antecedently to inquiry and conditioning it ab extra.\textsuperscript{31}

In other words, logic is concerned with inquiry and investigation, and it is from inquiry and investigation that knowledge arises; logic, then, is the correct form which inquiry takes in order to arrive at that knowledge. Dewey has characterized knowledge as "the appropriate close of inquiry," as "that which satisfactorily terminates inquiry."\textsuperscript{32} And all logical forms, all principles of logic "arise within the operation of inquiry and are concerned with control of inquiry so that it may yield warranted assertions."\textsuperscript{33} The test of knowledge is, according to this view, its usefulness; it must be as Dewey has termed it, a "warranted assertion." It is both the methods and the results of inquiry or research which are, then, the prime subject-matter of logic. Logic, asserts Dewey,

\begin{quote}

is a matter of profound human importance precisely because it is empirically founded and experimentally applied. So considered, the problem of logical theory is none other than the problem of the possibility of the development and employment of intelligent method in inquiries concerned with deliberate reconstruction of experience.\textsuperscript{34}
\end{quote}

Logical theory according to the pragmatists is, then, simply the improvement of the use of intelligence in inquiry, research, and experiment. It is a more active conception of the role of logic than the more ortho-

\begin{footnotes}
\item[32]Ibid., p. 8.
\item[33]Ibid., pp. 3-4.
\item[34]Dewey, Reconstruction in Philosophy, p. 117.
\end{footnotes}
dox view. It is both "empirically founded and experimentally applied."

As has been noted above, Dewey puts primary emphasis on the role of inquiry and experiment in the formation of knowledge; intelligence is but the active means of reconstructing experience, of remolding the environment, of adapting to a changing and dynamic set of experiences. Such being the case,

then logic, as an account of the procedure of thought, is not purely formal. It is not confined to laws of formally correct reasoning apart from truth of subject-matter. ... If thinking is the way in which deliberate reorganization of experience is secured, then logic is such clarified and systematized formulation of the procedures of thinking as will enable the desired reconstruction to go on more economically and efficiently.35

Thus it is that the pragmatists' theory of logic fits in rather closely with their general view of knowledge and of truth. Thinking, intelligence, research, inquiry, are all active, directed to locating the problem, to defining the difficulty. There is nothing sacrosanct or ultimate about these ways or rules of thought. The creative social intelligence, which plays such an important role in their analyses, is a collective social product; what is considered to be reasonable, intelligent, and logical, is culturally determined. Thus it is that the thing called social truth is both tentative and experimental; it is subject to constant readjustment and revision. In the same way, principles of logic are accepted as such because at a given time they incorporate the most useful and successful experiments in thinking and in the use of that thinking—the use of the creative social intelligence—available at any given time. These have evolved, as Fuller has noted, "because they have 'worked,'" they "owe such authority as they possess to their instrumental-ity in helping us solve the problems that confront us now and here."36

Under different conditions, in the light of different knowledge, with new and different problems, these principles might prove ineffective, or even worse, a positive hindrance. They would then cease to be good logic, but would be bad logic.

Purpose and the Scientific Method

The role of and the function of human purposes in scientific inquiry has often been misunderstood; many, including Veblen, insisting that they had no place in a truly scientific theory, or in a scientific inquiry. In the attempt to be objective, to rule out any influence of goals and motives, some thinkers have insisted that they had no place in any body of thought claiming to be scientific. To a considerable extent this attitude may have resulted from a desire to make the social sciences as "respectable" as the physical sciences where the scientist putatively removes himself from all social or institutional purposes which may be involved in his work. Thus it is said that the atomic scientists were not to question whether the atom bomb was good for mankind, it was merely their function to build the bomb. And likewise, many social scientists have insisted that human purposes, values, motivations, etc., do not have any place in economics. This view, however, is not shared by the pragma-

37 See especially his essay, "Why is Economics Not an Evolutionary Science?" reprinted in The Portable Veblen and in The Place of Science in Modern Civilisation; also his essays, "The Place of Science in Modern Civilisation," and "The Evolution of the Scientific Point of View," reprinted in ibid.

38 And it may be noted that when one of them did step out of this role in connection with the hydrogen bomb, he was severely criticized, even accused of consciously delaying the development of the bomb. The question of what role a physical scientist should play in such matters is of course far from settled. And indeed the role that the social scientist should play in such areas has yet to be agreed upon. These economists which we are here examining do have a point of view in this respect, however, and it is one which will be developed in the course of this study.
Dewey drew attention to what he considered to be the difference between a social and a physical science according to their treatment of human purposes:

...attention may be directly called to one outstanding difference between physical and social facts. The ideal of the knowledge dealing with the former is the elimination of all factors dependent upon distinctively human response. "Fact," physically speaking, is the ultimate residue after human purposes, desires, emotions, ideas and ideals have been systematically excluded. A social "fact," on the other hand, is a concretion in external form of precisely these human factors. ... The machine itself may be understood physically without reference to human aim and motive. But the railway or public-utility system cannot be understood without reference to human purposes and human consequences.35

Commons, who always considered himself a pragmatist, has characterized the essential difference between a physical and a social science as whether or not human purposes are included; the "primary principle" of the social sciences is that the investigation must start with a recognition of public purpose. Commons drew a distinction between the pragmatism of James and the pragmatism of Dewey, noting, however that he used the term "pragmatism" always in the scientific sense of Peirce as a method of investigation, but we consider that Peirce used it only for the physical sciences where there is no future and no purpose, while James and Dewey used it always for the human sciences, where the subject-matter itself is a pragmatic being always looking to the future and therefore always motivated by purposes.41

Commons insists that the social sciences, including economics, must begin

40 Commons, Institutional Economics, p. 654.
41 Ibid., p. 665.
with human purposes, for they define its very subject-matter; a theory in other words is primarily an instrument to assist mankind, it is not merely the logical deductions from a given assumption. Being strongly influenced by pragmatism, Commons and the other institutionalists, insist that a theory in economics is nothing more than a man-made, tentative proposal to fit some human purpose. The only satisfactory criterion of the validity of that theory is whether or not it leads to the expected social results when used. Human thinking and human knowledge are both relative and tentative and cannot in practice be separated from societal purposes and the institutionalists are merely ready to and willing to accept that as a basic premise and therefore to reorient economic thinking so that it will fit those social purposes. J. M. Clark thus argued that

The greatest use of the data of social science should be in eliminating the calf-paths of social habits.... The outcome of this process will be laws: laws which, instead of embodying past customs seek to modify them and improve on them. Such laws are conscious means to calculated ends and their value lies wholly in their expected results.

The institutionalists conceive the function of economics as being to improve the economic process, to solve social-economic problems; they therefore see economics as being exploratory, investigatory, anticipatory. It must continually examine and re-examine the functioning of the economic system and it must therefore take as its very subject-matter

42 See ibid., pp. 150ff.

43 As a matter of fact, Commons strongly insists that the orthodox economist has misconceived the role which assumptions are to play in economic analysis—a point to which we will return in the next section.

44 Clark, "Toward a Concept of Social Value," Preface to Social Economics, p. 63.
human purposes and the extent to which they are being fulfilled or thwarted in the actual operations of the economy. It is their function as economists to show where the economic system is not functioning correctly and to show how it could be improved. George Sabine in one of the clearest and most cogent discussions of the relationship between pragmatism and institutionalism, said that "quite obviously, the pragmatist has to stand or fall with the proposition that every theory has a purpose somewhere behind it." The institutionalists are simply willing to take their stand on this proposition and to recognize the role of human purposes explicitly and not be content merely to leave them in the background. Robert Franklin Hoxie who, like Commons, spent a considerable part of his life investigating social conditions, appended a section on methodology in this Trade Unionism in the United States. In this appendix he pointed out the necessity of first realizing "just what is the end of scientific investigation" in the social sciences. He dismissed the view of scientific knowledge as "an end in itself" holding to the contrary that "...in all reality all scientific investigation is undertaken in furtherance of some definite, vital, human interest." The obvious reason for this says Hoxie is that

We wish to control the forces at hand so as better to realize some human purpose, therefore we seek to comprehend the existing situation from the standpoint of the purpose or interest in question. The scientific interest is therefore not merely academic but is in a sense practical--practical in the sense that it is an interest in understanding for the sake of the life of the society or the individual. It follows that all scientific investigation is bound to be highly selective. We do not seek to understand the existing situation as a whole--that would be impossible--but we seek to understand the present in its relation to the interest at stake, the problem at hand.

This view is somewhat contrary to that taken by the more orthodox econo-
mist who insists that his role is not to engage actively in reforming
society. He insists that he must be "scientific" and "objective." It
is not his to question economic practices or procedures. The institution-
alist, however, argues that this misconstrues the nature of scientific
analysis; that as we noted above, it confuses the nature and the function
of the social sciences with that of the physical sciences. The field of
economics is intimately concerned with human purposes and human problems
and it is the function of economics "to do something about" those purposes
and problems. They conceive economics, not as a withdrawn, passive, aca-
demic discipline, but rather as an active participating endeavor to improve,
to correct, to ameliorate economic conditions. There runs through all of
their thinking and analysis this tendency toward meliorism—that the world
can be improved and that it is their duty to show in what ways this can be
achieved. As Gruchy noted,

> They have felt themselves called upon to use their accumu-
> lated knowledge about the economic system as a tool for
> social and economic criticism and for the definition of
> the proper ends of our economic system.\(^\text{47}\)

Walton Hamilton recognized, as he saw it, the necessary connection between
the inclusion of human purposes or aspirations, and meliorism, consciously
aligning himself with those who do "want to do something about it."

> An analysis has its roots in the purpose of the search,
> in the use to which the information is to be put. ....
> It is the hope that understanding can be put to some
> human use which gives zest and purpose to the undertak-
> ing. It is not the fashion to proclaim a desire "to do
> something about it" as a justification of intellectual
> adventure; and words like "objective" and "scientific"
> have come to serve as masks with which to affect a lack
> of personal concern. .... Accept as we must the neces-
> sity for utmost integrity, yet the adventure should

\(^{47}\)Gruchy, "The Concept of National Planning in Institutional Eco-
yield results useful to the making of policy.\textsuperscript{48} These economists agree with Hamilton that knowledge and understanding should be put to some human use, that economics must be useful in directing, guiding, and reforming, the economic system. They consciously accept the role of economic reformers\textsuperscript{49} and that the only meaningful frame of reference for knowledge and understanding is this guidance and improvement of the developmental process of the economy. This is why they have put a great deal of emphasis on the need for research and investigation. An important basis for their view of such research or investigation is their view of the function of assumptions or principles in economics—a view which stems from pragmatism and which differs markedly from the orthodox position.

The Use of Assumptions as Tools for Investigation

Considerable has been said above about the epistemological basis of institutional economics and one consistent theme has been the emphasis placed upon investigation, research, inquiry, and experimentation. It is the general view, accepted by the institutionalists, that economics must become an active, participating discipline. Knowledge and understanding are seen to evolve from continual testing and retesting—from continual use. Pragmatism regards any theory, assumption, or hypothesis as a tool or an instrument, the efficacy of which is to be judged by its consequences in use. Dewey once pointed out that

\[\ldots\text{notions, theories, systems, no matter how elaborate}\]

\textsuperscript{48} Hamilton, W., Price and Price Policies, p. 527.

and self-consistent they are must be regarded as hypotheses. They are to be accepted as bases of actions which test them, not as finalities. To perceive this fact is to abolish rigid dogmas from the world. It is to recognize that conceptions, theories and systems of thought are always open to development through use. It is to enforce the lesson that we must be on the lookout quite as much for indications to alter them as for opportunities to assert them.\(^\text{50}\)

Such being the case, as we noted earlier, logic is seen to be not merely the rules governing the excogitations of given assumptions, but rather the continual testing, using, modifying, and experimenting, with those assumptions. "The real meaning of a hypothesis," said Clark, "lies in the different way things may happen if it is true, as contrasted with the way they would happen if it were false."\(^\text{51}\) Assumptions, theories, hypotheses are tools for investigation; they represent possible alternative courses of action. Kenneth Parsons noted that in Commons' view, thought is seen to be "creative and constructive, not simply reportorial."\(^\text{52}\)

These views are in rather marked contrast to that taken by the more orthodox price theorist who sees assumptions or hypotheses as bases from which conclusions may be deduced. Professor Stigler, for example, expounds this view most explicitly in the opening chapter of his Theory of Price. He recognizes "two parts" to an "economic law"; they are, "certain assumptions or hypotheses; and a conclusion drawn from these hypotheses." And he further adds that "The formal validity of a scientific law depends only on the logical rigor with which it follows from the assumptions." It is true that Stigler goes on to remark, in the nature

\(^{50}\) Dewey, Reconstruction in Philosophy, p. 121.


\(^{52}\) Parsons, "Introduction" to Commons' Economics of Collective Action, p. 17.
of an aside, that "if a science were to study only the logical implications of various propositions or assumptions, then logic (or mathematics) would be the only science." He notes that a more fundamental test is that "it must explain the behavior of the phenomena in which we are interested; the assumptions must correspond with the facts." Even with the qualification, however, this view of assumptions and the part they are to play in economic theory is quite different from that accepted by the institutionalists. And the difference is even greater when we examine the general nature of the economic theorizing to which these two methods lead. Whether true or not, Stigler would argue that the real meaning of an hypothesis or assumption is in the conclusions which may be deduced from it and its validity depends upon the logical rigor with which the conclusions follow from these premises. Perhaps it would be more correct to say, whether meaningful or not, with reference to the assumptions. For orthodox theory is based, for example, on the conclusions drawn from the theory or assumption of diminishing returns. Now, this is undoubtedly a "true" assumption. But whether it is meaningful or not is another question. And the institutionalists argue that economics must become a useful, participating inquiry. It must contribute to the solution of the problems of the modern industrial economy, and in their view, the assumption of diminishing returns and the conclusions drawn from it, do not contribute greatly toward the solution of contemporary problems.

The real difference, however, is in the quite different view taken of the assumptions which are to be used. Thus, Stigler holds that they are but premises from which other conclusions are to be drawn with the

53 Stigler, The Theory of Price, pp. 4-6, passim.
greatest care. The institutional economist insists that assumptions are tools of investigation--"The real meaning of a hypothesis lies in the different way things may happen if it is true, as contrasted with the way they would happen if it were false." John R. Commons has written more extensively on this general subject than any other of the institutionalists. In his analysis, assumptions, hypotheses, theories, principles, are all specifically designated as tools or instruments for investigating the ongoing social-economic process, rather than premises whose contents are to be explored by "rigorous logic."

Commons has often referred to twentieth century economics as "administrative economics." And one of the more important cornerstones of his whole way of thinking is his concern for investigations as being the necessary corollary of proper administration. Commons has contrasted his method of analysis with the traditional orthodox analysis as the difference between the "comparative and deductive" methods of reasoning.

The deductive method is characteristic of the classical or orthodox economics which rested upon the isolated assumption of self-interest. Complexities are eliminated because a single assumption is isolated. The conflict between these two methods, says Commons, comes into sharp focus when they are put to actual use, "when economists are required to work with public administrators—in the administrative commissions or action agencies." He holds that the economist because of his training, and the administrator because of his problem, may be speaking entirely different languages, they are operating in quite different frames of reference, and they are thus less effective than if they were operating in the

55 Commons, Economics of Collective Action, p. 124.
56 Ibid., pp. 126ff.
same framework. To be useful and helpful in such "action" situations, (and Commons insists that these are the important province of economics), the economist must abandon his traditional method of reasoning, of deducing from a single assumption and adopt the comparative method of investigation. He noted that in traditional economics, assumptions are often called fundamental principles or elementary principles, because they are the basic premises from which conclusions or logical implications are drawn.

In contrast to this traditional view, Commons takes the position that assumptions are to be used as "mental tools for purposes of investigation." Assumptions in economics are made for the purpose of attaining systematic interpretation and understanding in a world of diversity. They are devices for investigation. The validity of such assumptions is found through the fruitfulness of their uses.

The main point of difference is that the orthodox economist uses assumptions as premises from which to expand, by means of rigorous logic, further conclusions; and economic "theory" is the whole body of assumptions, conclusions, implications. Commons, however, insists that assumptions are devices to aid in understanding the economic system by means of investigation, by testing, by accepting or rejecting according to the light they shed on the problem. The importance of this whole point of view, according to Commons, is that

It converts the whole process of economic theorizing from a "theory," in the older sense of the logical consistency of reality, to the mere methodology of constructing intellectual tools to be used in investigation. There is no longer a question of antagonism be-

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57 Ibid., p. 113; see also ibid., pp. 73, 124-125, 203, and 237; and Institutional Economics, pp. 722, 734; and "Twentieth Century Economics," Journal of Social Philosophy, Vol. V., 1939.

58 Commons, Economics of Collective Action, p. 73.
tween theory and practice, for a theory is only a tool for investigating practice. Indeed, a science is not a body of knowledge—it is just a method of investigation and its theory is its method. 59

Noting the active, exploratory nature of this "twentieth century economics", Commons added that

...as we proceed with our investigation, we have a changing hypothesis, taking in new factors or retiring older ones, always seeking to make less utopian the utopias which our minds construct. Thus theory becomes, not only a mental process for investigation of facts, but becomes also an interpretation, correlation, and expectation of facts. 60

Thus in Commons' view, assumptions are but the mental tools or instruments, the devices, to be used in investigating and inquiring into economic problems and processes; economic theory, then, is the mental process of that investigation and the interpretation, correlation and expectations involved in that investigation. This view of economic theory has meaning primarily, if not exclusively, only in relation to economics as the basis for the control and the guidance of the economic system. It is obviously public policy oriented, operating from the point of view that economic theory and economic analysis must be useful and that the primary criterion of usefulness in the twentieth century is control of the economy. Such control or reform must proceed from a thorough understanding of the nature of the contemporary system and its problems and potentialities; such an understanding is not to be gained by exogitating the same principles or assumptions as used by economists of days gone by.

Economic investigations in the twentieth century, with its revolutions, credit cycles, unemployment, and repeated wars, must take into account many different aspects of

59 Commons, Institutional Economics, p. 722.
60 Ibid., p. 734.
activity. Otherwise research and investigation cannot be brought to full use in the collective effort to control the great and violent "forces" of today.61

Economics, then, is not an abstract, academic discipline; it is rather a functional, active body of understanding and investigation whose function is to "control the great and violent forces of today." This active participation, the institutional economists insist, must proceed from a better insight into the economy, its limitations and potentialities, than that provided by the orthodox method "which rested upon the isolated assumption of self-interest." It is in this sense that Commons has emphasized the necessity of converting assumptions into mental tools for investigations and the testing of the validity of such assumptions in their usefulness in control of the economic system.

Viewed in this context, a very common misunderstanding about institutionalism may be easily corrected. It is often said that the institutional approach is that of the case study, of the empirical, of the inductive. And that of course is correct, but it is not the end of the story, as so many seem to think. Professor Ayres noted the importance of these studies when he said:

During the half-century that is just closing professional economists have been devoting more and more of their energies to empirical investigations. The result of this application has been a bumper crop of "descriptive studies," as they are often called. I put the phrase, "descriptive studies," in quotation marks because it is a misnomer. These investigations ... are none of them merely descriptive in the photographic or literary sense. All seek to identify causes and effects, and are therefore definitely analytical.62

The institutional economist particularly puts a great deal of emphasis on

61 Commons, Economics of Collective Action, p. 73.
the case study, on empirical research, on investigation, on inquiry, upon the experimental attitude. But the emphasis is not upon any one, or all of these, taken alone. It is not a study for the sake of a study. Any case study per se would not be a product of institutional economics. It must begin with the premise that understanding of the problem necessarily precedes improvement or correction. Walton Hamilton's study of the coal industry is a good case in point; this was not a study undertaken merely to describe the market structure of that industry. It was most certainly not merely "descriptive." It was an attempt to show the shortcomings, gaps, and the potentialities, with a view to providing the basis for substantial improvement of the existing situation. Commons of course devoted most of his life to analyzing, probing into, investigating various aspects of the economy—inquiring into labor's history, its problems and areas for improvement; into industrial government and industrial commissions, into social security and public utility regulation. Likewise, Mitchell is perhaps best known for his long and pains-taking work investigating the business cycle, insisting that it could be understood only in relation to "the problem and its setting." None of these was a mere description of an industry, none of these originated from a dispassionate desire to know for the sake of knowing—but all were undertaken with hopes that inquiry would lead to a better grounding in facts in order to provide the understanding necessary for action. It was precisely this position which led Mitchell to hold, in 1931, that economics was making much faster progress than ever before, because

...the records of human behavior, regularly collected and published, are becoming fuller and more accurate. ... In dealing with many, though not with all, problems we can substitute knowledge of fact for uncertain opinion; analysis of actual process for speculation about what would happen under hypothetical conditions. 63

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And when he discussed the problem of the business cycle and the difficulties involved in bringing it under control, Mitchell warned that

These defects in the system of guiding economic activity and the bewildering complexity of the task itself allow the processes of economic life to fall into those recurrent disorders which constitute crises and depressions. To recognize this fact, however, is but the beginning of wisdom. Much patient analysis is required to discover just how these disorders arise, and why, instead of becoming chronic, they lead after a time to the return of prosperity.64

The central point is that, as these economists view it, the function of knowledge is control, but control must proceed from a more basic and thorough understanding of the "problem and its setting" than is possible from the orthodox point of view. What is needed is the substitution of "knowledge of fact for uncertain opinion," the analysis of actual processes rather than hypothetical speculation.

Ayres once emphasized what he considered to be one of the more important contributions of pragmatism to economics when he said that "Instead of finding solutions for the problems we have all been struggling to solve, Dewey has tried to show us that we are asking the wrong questions,"65 and from this, he added that the important lesson to keep always in mind is that "questions and answers develop together."66 Rather than ask what are the determinants of price under various assumed conditions, we should ask, what are the determinants of the economic well-being of the society; the answer to that question must emerge from the inquiry

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64 Mitchell, Business Cycles; The Problem and its Setting, p. 173; the very title of this work may be taken as illustrative of this point—that an understanding of the problem cannot be separated from its setting.


66 Ayres, The Industrial Economy, p. 18.
which that question originates. It is the same point made by Commons, Mitchell, and Clark: that the whole learning process is a developmental one, not an additive one, and that an appreciation and acceptance of this is a necessary prerequisite to a workable knowledge of the economic system.

Rex Tugwell has also been greatly influenced by this general point of view, naming it "experimental economics." The whole basis of modern science, says Tugwell, is experimentalism—the "distrust of premises and dependence upon consequences." We have ceased, he said, to "look for ultimates and turned to the search for expedients." We must learn by doing by experiment, by trial and error; for it is only by such processes that knowledge and understanding of the economic system are to be gained.

The basic reason for this shift to experimentalism "has been the failure of deduction from exogitated premises to produce results that count for the attainment of the goals society more or less unconsciously sets for itself." And it is results that count. The whole basis for this attitude is the distrust of premises and the reliance upon consequences, for "in this twentieth century, the truth must be useful. And this classical economic theory is not." He explained this experimental attitude as the recognition that

the solution of the problems of our economic life can be found only through maintaining an experimental attitude toward those problems, and through accepting a suggested solution for them only if it works.

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68 See Tugwell, The Industrial Discipline and the Governmental Arts, pp. 216ff.


70 Ibid., p. 393.
The economist must cease to look upon social and economic agencies and institutions as given, as ends-in-themselves, and must instead regard them as instruments, as means to ends, as temporary rather than permanent. Walton Hamilton, in similar fashion, added that "It is not a final answer to the enigma of industrial order that is sought.... It is rather ways of procedure and devices of accommodation for meeting situations as they arise."\(^{71}\) And has been noted previously, this is the general view to which all these economists subscribe: that the economic system does not require a PLAN, a blueprint, but rather a conscious use of social intelligence in the guidance of the economic system. As Mitchell warned, the common attack of the social sciences upon this problem 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.\(^{72}\)

Clark also warned that "planning is no easy panacea ... it can easily make mistakes. But it contains possibilities of real contributions to our present stage of industrial development." He further emphasized that "We are bound to be trying experiments in the coming generation."\(^{73}\) And if this is the case, then one primary function of economic theory and economic analysis is to provide the background necessary for such experimentation. "For that needed measure of light, we must probably look to a course of social research and social education which may be a matter of generations."\(^{74}\) Social research, inquiry, investigation, all loom rather import-

\(^{71}\)Hamilton, W., *Price and Price Policies*, p. 555.

\(^{72}\)Mitchell, "Intelligence and the Guidance of Economic Evolution," *Backward Art of Spending Money*, p. 127, italics added. Again, Mitchell has emphasized an important point by a title to an essay.

\(^{73}\)Clark, *Social Control of Business*, p. 471.

\(^{74}\)Ibid., p. 50.
ant in the view of these economists. It might be asked, "Investiga-
tion for what?". And indeed it would be a proper question, and one for
which these economists would have an answer. Knowledge is, in their
view, not a mere end in itself; it is, rather, the basis for action; it
is primarily "an instrument of control."

Knowledge as an Instrument of Control

Introduction

Pragmatism or instrumentalism stressed that the function of knowledge
is to provide man with the means to control the various forces to which
he is subject; the pragmatists have thus made action, rather than con-
templation, the key to the meaning of knowledge. This has in many respects
been the central thesis by which they have identified their way of think-
ing and contrasted it with earlier (and according to them, cruder,) forms
of philosophy. It was in this sense that Dewey argued that

But in the degree in which the active conception of know-
ledge prevails, and the environment is regarded as some-
thing that has to be changed in order to be truly known,
men are imbued with courage, with what may almost be
temed an aggressive attitude toward nature. ... Change
becomes significant of new possibilities and ends to be
attained; it becomes prophetic of a better future. ... Since changes are going on anyway, the great thing is to
learn enough about them so that we may be able to lay hold
of them and turn them in the direction of our desires. ... In a profound sense knowing ceases to be contemplative and
becomes practical.75

Thus Dewey is arguing that to truly know the environment it must be looked
upon as something that is to be changed by man; knowing, understanding,
knowledge itself, cease to be contemplative and become instead, practical.
In another work, he points out that the significance of instrumentalism is

...a change from knowing as an esthetic enjoyment of the

75Dewey, Reconstruction in Philosophy, pp. 102-103.
Properties of nature regarded as a work of divine art, to knowing as means of secular control—that is, a method of purposefully introducing changes which will alter the direction of the course of events.  

True knowledge, then, is the method and the results of purposefully introducing change, of controlling and directing the course of events, rather than relying on the forces of nature. Commons has characterized this distinction as one between "artificial" and "natural" selection, that is, a reliance upon human direction rather than automatism. Social or economic evolution, according to Commons, is in the twentieth century concerned with a controlled future; it is not an evolution of mere "blindly cumulative causation," but rather adaptation by choice and selection. Artificial or "purposeful" selection means "Purpose, Futurity, Planning, injected into and greatly controlling the struggle for life." The institutionalists maintain a common faith in the ability of human intelligence, socially applied, for the working out of and the guidance of economic problems. Mitchell insisted that research, investigation, and inquiry "will broaden out into a constructive criticism" of our modern economic system; it will be a "constructive criticism which may guide the efforts of our children to make that marvelously flexible form of organization better fitted to their needs." This constructive criticism, this "close scrutiny" of our economy, "is indispensable to convert society's blind fumbling for happiness into an intelligent process of experimentation." And Tugwell noted with approval that there had been a gradual


77 Commons, Institutional Economics, p. 636; see also Copeland, M. A., "Commons' Institutionalism in Relation to Problems of Social Evolution and Economic Planning," QJE, February, 1936, pp. 333ff, for a discussion of this facet of Commons' writings.

shift in some universities to "an intensive study of institutions, and the operating forces of industrialism." The underlying and unifying thesis of such research, according to Tugwell, is "that industry shall fit better the large needs of mankind and serve civilization with smoother-running machinery, and with better adjusted human arrangements." It is only in such an atmosphere as this, Tugwell insists, that "Economics thus becomes a science."^79

The effect of such research and inquiry, according to Clark, is that present-day economists "know much more than we did fifty years ago," but even more important, such investigations have shown us that there is "much less of which we are certain." The disappointment of it all, however, is that

> it remains true that in time of desperate need, economics has not furnished the unified and authoritative guidance which many have thought, rightly or wrongly, that they have a right to expect.\[^{80}\]

Thus the function of economics is seen by the institutionalist to provide that unified and authoritative guidance which is so desperately needed to convert society's blind fumbling into an intelligent process of social experimentation. But as Walton Hamilton specifically pointed out, "control of the development of the industrial economy is contingent upon a knowledge of the bundle of conventions and arrangements which make it up."\[^{81}\]

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As we have noted above, the institutionalists insist that economic and social evolution belong in the category of "artificial" or "purposeful" selection, rather than in the category of "natural" selection. This is simply an emphasis upon their reliance upon the ability of organized, social intelligence to meet the problems of an evolving, dynamic society; that socialized intelligence can successfully guide the destiny of that evolution. It is a reliance upon human direction and control rather than upon any natural set of forces. John Dewey once argued

that failure to make action central in the search for such security as is humanly possible is a survival of the impotency of man in those stages of civilization when he had few means of regulating and utilizing the conditions upon which the occurrence of consequences depends. 82

Dewey's point is simply that as long as man was "unable by means of the arts of practice to direct the course of events," he inevitably had to accept the forces of nature and their control over him; his only recourse was by sacrifice, supplication, and magical rites, to propitiate the gods who determined his destiny. "If man could not conquer destiny he could willingly ally himself with it...." 83 With the growth of the arts and sciences, with the increasing understanding and knowledge which man has at his disposal, he has been able to turn the forces of nature to his account. This latter method, the method of changing the world through action, is the basis of instrumentalism and its emphasis upon the role of knowledge as an instrument of control over man's environment.

83 Ibid., p. 275.
It further is the argument of Dewey and the other pragmatists that it is only through planning, controlling, guiding, and the active use of man's social intelligence, that an active science emerges. In Dewey's words:

...if we want something to which the name "social science" may be given, there is only one way to go about it, namely, by entering upon the path of social planning and control.84

This, as it will be recognized, is merely the necessary corollary of the active, participating view of knowledge which Dewey holds. And it is a point of view which the institutionalists have accepted, agreeing with Dewey that

...it is a complete error to suppose that efforts as social control depend upon the prior existence of a social science. The reverse is the case. The building up of social science... is dependent upon putting social planning into effect.85

Knowledge and understanding of the economic system grow out of investigation which is directed at control; and that is the only function which knowledge can have for the social sciences--it is an instrument of control. Dewey once criticized traditional logic and traditional theories of knowledge as being

...general answers supposed to have a universal meaning that covers and dominates all particulars. Hence they do not assist inquiry. They close it. They are not instrument-talities to be employed and tested in clarifying concrete social difficulties. They are ready-made principles to be imposed upon particulars in order to determine their nature.86

85 Ibid., p. 951.
86 Dewey, Reconstruction in Philosophy, p. 149.
The institutionalists have agreed with Dewey in these several respects—that a social science can emerge only through use, only through control; that, as Clark and Tugwell pointed out, it is to the economists that society should have been able to look for guidance. The difficulty, however, has been that the orthodox economist has been too engrossed in refining traditional economics, they "have been lost in a tradition," and have thus been prevented from taking cognizance of the ever-changing economic system and its problems.\(^{87}\) And it is thus that economics has missed its primary responsibility which is policy; the test of its significance, says Tugwell, "lies in the field of social action."\(^{88}\) We do not, he argues, seek "knowledge for its own sake," we seek to understand "in order to be better fitted to improve our lot, to raise our levels of living."\(^{89}\)

Mitchell clearly and specifically spelled this general point out for us when he noted that "In economics as in other sciences we desire knowledge, mainly as an instrument of control."\(^{90}\) Commons in like note defined economic science as "the process of analysis, genesis, and insight," adding that economic science is not a given or fixed sum of knowledge, "but a process of attaining control over the forces of nature by a better knowledge of the ways in which these forces operate."\(^{91}\) This is the basis

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\(^{87}\) Tugwell, \textit{The Industrial Discipline}, pp. 87-8.
\(^{89}\) Tugwell, \textit{Our Economic Society and its Problems}, p. 496.
\(^{91}\) Commons, \textit{Institutional Economics}, p. 746.
upon which Commons insists that economic science belongs to the area of purposeful selection for this twentieth century economics is basically characterized by a shift to a conscious direction of the economic system rather than a reliance upon natural forces or natural laws:

Instead of taking for granted a beneficent providence that makes the rules, as did the early economists, the rules themselves are investigated.... It is through knowledge of working rules that modern administrative economics learns its mechanism of control by collective action.  

And in another instance, Commons asks if it is not better to recognize what the foundations of our modern economy are rather than to be "contented with 'natural law' instead of a better organized collective action." These economists are arguing that man no longer has to submit to the forces of nature, or to the fortuitous forces of an impersonal market mechanism, and that with increasing understanding, with continually improving knowledge, mankind can control his own economic des-

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92 Common, Economics of Collective Action, p. 129.

93 Common, Institutional Economics, p. 846. It might be well to interject a note of explanation at this point. The references to human control v automatism, the reliance upon human direction, upon social action, rather than upon natural forces, may raise some objection in the mind of the reader. For who, one may ask, would rest his case in the twentieth century upon natural law? This question cannot be easily answered at this time. The institutionalists argue in general that orthodox economics is rather heavily infused with a theory of knowledge that relies heavily upon some such metaphysical basis. But more important than that, having accepted the pragmatic or instrumentalist position, the institutionalist has evolved a rather different position in several respects. One is his acceptance of the function of the economist in actively helping to direct and control economic development. Another is a fundamentally different conception of human nature and human behavior, which will be developed in a later chapter. But perhaps most basic, as concerns this matter of reliance upon natural forces, is the refusal of the institutionalist to accept a rather important tenet of orthodox economics—the reliance upon the market mechanism. Rather than take it as the end of economic analysis, the institutionalist insists that it is but one of the subjects for investigation.
tiny. As Tugwell approvingly noted,

The laissez-faire of the nineteenth century was based upon a metaphysics of providential guidance. The planning of the twentieth century rests its case on a philosophical faith in the power of man to promote orderly economic and social change.\textsuperscript{94}

As a specific example of their faith in the ability of man to free himself from the vagaries of the market mechanism, Commons once noted the terrible price that had been paid by society for the automatic gold standard and that, thought difficult, how much better from the standpoint of the economic welfare of the community was a managed money system. He went on to praise the Bretton Woods Agreement as "the abandonment of an 'automatic' international monetary system" and its replacement by the "open and explicit acceptance of international management and control of currencies."\textsuperscript{95} And Mitchell also argued for the advantages of a managed monetary system, holding

...that there are grounds for hoping that men may free themselves from dependence upon fortuitous changes in the annual output of gold by more skillful management of their monetary and banking systems.\textsuperscript{96}

Seen in the total picture, these are but two examples of the insistence by these economists that mankind can control and direct his own destiny and that the function of economics is to contribute to that guidance.

This is of course economic planning. And it is this which is the central core of the whole way of thinking in institutional economics. It means an experimental, active, participating, functional economics. It means, in the words of Tugwell, "actual working with and thinking about


\textsuperscript{95}Commons, Economics of Collective Action, pp. 246-7.

\textsuperscript{96}Mitchell, Business Cycles: The Problem and its Setting, p. 136-n.
It means, in Tugwell's view, the joining together of research, social criticism, and social direction. It is this multi-faceted view which economists must adopt, for it can be said that a free university is almost the sole source from which such critical social examination can come as will be involved in the new experimentalism.... Without projects for change which come from a disinterested source, society lacks wholly any industrial directive force at all.... And if the social good is to be obtained, and not just here and there the good of an individual or a group, if we are to have in this sense, progress, it can only come from a constant reexamination of ideals and constant redirection of social forces toward their attainment.97

Ayres also agreed when he noted that the primary function of economic theory is to take "cognizance of the social needs" of the day and that economics is therefore necessarily concerned with "social reform." He also was of the opinion that modern economics is in "the process of formation was one of the instruments of control over social renovation," that it is turning its attention to "giving an account of the modern social order which shall square with the facts of social justice and thus be relevant to the needs of the day."98 In a recent article, Ayres discussed the nature of economic change and development and asked whether that "process is meaningless," or, "is it susceptible to intelligent control."99 He strongly urged that it is subject to intelligent control, that it is not the product of automatic forces over which man can exer-


cise no guidance, forces before which man must stand helpless. Their central point is that to have a social science, economic thinking must actively enter into control, into reform, into planning, for, in Ayres' view, "All economic thinking postulates planning..." It is only by such a procedure that a science can emerge, for knowledge to be useful it must be used; the more it is used, the more we know, the more there is about which we are certain.

The Function and Use of Economic Theory

We have noted above that the institutionalists have accepted the position that economic analysis, economic theory, and indeed, all thinking in economics, must be an active functional process; that it is concerned with problem solving; that it must, in other words, be useful—and that to be useful, it must be used. Hypotheses, theories, and ideas, are but springboards for action, to be tested, verified or rejected in actual practice. They must be aimed toward the reform and the improvement of the economic system. There runs through their writings a strong melioristic tendency—that man's social world is not "given," nor is it automatically governed by inexorable forces, but is capable of improvement, and that the primary function of economic theory is to assist in that improvement. These economists have insisted that it is their duty to translate economic theory into some form of action which will enable us to get at the root of various economic problems and maladjustments. Thus Clark deemed it "inevitable" that there should be a careful and "searching reconsideration of the question of what we want an economic system to do for us." He added that while final answers would not be easily or quickly

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100 Ayres, The Industrial Economy, p. 186.
formulated,
economics will need to raise this question and that if it is answered by conventional formulas based solely on satisfying commercial dollar demand, it will not be facing the realities of the time. Clark envisaged the day when economics would be more directly concerned with such problems, when it would become less and less a custodian of an insulated discipline with an "academically defined boundary." If such is the case, he added, pedants need not be unduly fearful that their theoretical problems will lose their importance. "It is only the traditional readymade answers—or methods of evading the need of an answer—that will lose standing." It should be noted that it is the economist who is to raise these questions about the goals or ends of the economic system, but to do this, Clark argues the economist must not be "content to let the market decide the uses to which economic goods should be put." He insists that they "make a declaration of partial independence from the market," for although it is an important instrument, it is nevertheless, a "biased instrument for recording values." It is for these reasons that Gruchy pointed out "They have felt themselves called upon to use their accumulated knowledge about the economic system as a tool for social and economic criticism and for the definition of the proper ends of our economic system." This of course marks one important distinction between the institutional and the orthodox economist; the latter insisting that it is

102 Ibid., p. 123.
103 Ibid., p. 129.
not his function to define the goals of the economic system, neither is it his function to criticize or to suggest. The institutionalist, however, conceives it to be his function specifically to do so and his writings and investigations, his theories and proposals are so oriented. Thus Mitchell's analysis of the business cycle was never a mere intellectual exercise; it was undertaken with the firm conviction that here existed a problem calling for a solution, an evil to be eliminated—and an evil which could be eliminated if approached from a proper frame of reference. The same is certainly true of Ayres' concern with the business cycle and its close connection with the economic causes of wars. Clark devoted most of his life to trying to evolve a more correct approach to social cost accounting by showing that the free market actually throws the burden of overhead costs upon the individual laborer, rather than socializing them. Thus it was that Clark insisted that economists must take and use various "standards of value contrary to those of the free market" if it is to "contribute scientifically to economic reform."105 The traditional "theories of value and distribution," however, have scarcely ever descended from their "rarified atmosphere" to the problems with which the economist must and should be concerned. And, Clark adds, "If these be the limits of economic science, then it simply does not lay hold on the deepest issues of our time."106

Tugwell added his conviction that in the twentieth century, "truth must be useful," but he insists that neoclassical economics is not useful. It makes no difference, he noted, whether one believes in the classical economic laws or not, "because they have no working relevance" for the

105 Clark, "Toward a Concept of Social Value," Preface to Social Economics, p. 52.
106 Ibid.
modern economist. To accomplish any goal, to show how and in what ways the economic system can be improved upon, to evaluate existing institutional practices, it is necessary to have better research, a better grounding in reality. Judged by the functional criterion of results, received economics is quite inadequate for the task. Thus it is that the most important use of the social sciences, according to Clark, is the elimination of the wandering "calf-paths" of social habits. This, however, calls for a continual re-examination of existing institutional practices, or existing social habits. And the result will be a conscious effort to modify and to improve upon past customs. The result will be to make the best possible use of our collective intelligence in the economic process and not to rely upon the automatic functioning of an economic man, the price system, or the sum total of a mass of individual actions.

The institutionalist has obviously taken a rather different view from the orthodox economist in many important respects: in his view of human nature and psychology, the influence of culture, his view of society and its relation to the individual, the meaning and function of the price system. To complete our inquiry into the basis for economic planning in institutional economics, we must therefore turn to an examination of these various concepts.


CHAPTER VI

HUMAN NATURE AND PSYCHOLOGY

Introduction

The epistemology of the institutional economists is closely correlated with their views on psychology or human nature. As we have noted above, they view knowledge as being functional, useful, exploratory, investigative. They take the mind to be an adapting, exploring, adjusting mechanism, rather than a mere "passive receptacle of ideas."¹ It is this quiescent theory of the mind which the institutionalists argue has dominated the thinking and the theories of economists. For this, they would substitute a view of the human mind as being both a reflector of the world of experience and a reshaper of that world. Commons specifically argues that economics is a study of "the human will in action," and urges that economists must adopt a volitional, behavioristic, psychology in place of the subjective, passive, pleasure-pain psychology of the classical economist. They have stressed the functional role of the mind in the life-process and have consequently adopted a somewhat different view toward the importance of psychology for economics, a somewhat different conception of human nature, or human behavior.

It is in this sense that Tugwell noted that

One criticism brought against conscious economic theory is that it fails to take advised and realistic account of human nature. Economics is admitted to have a conception of human nature; but the root of the trouble seems to lie exactly in the fact that it is a conception--or,

perhaps more accurately, a preconception.²

This preconception is, in large part, the individualistic and atomistic view of the orthodox economist. In this view, the emphasis is on men qua individuals. Social behavior is seen as merely the summation of the individual acts of individual men who are what they are "by nature"—lazy, selfish, rational.³ This being the case, society is no more than a set of rules for the control and guidance of mankind. Economic activity is basic to all other activity and from it the natural laws of human conduct are deduced. Government exists, therefore, only to give complete freedom of action to those basic economic drives. This is essentially the point of view of human nature as expounded by Adam Smith and his successors; it was, as Dewey has pointed out, an attempt "to give intellectual expression to the rising industrialism" which was taking place in England; it was "not framed with scientific objectiveness but on the basis of what was needed to give intellectual formulation and support to practical social movements."⁴ Professor Ayres, commenting upon this same approach to the formulation of a concept of human nature, noted that

Adam Smith's theory of moral sentiments was the behaviorism of the eighteenth century. By intention it was a wholly objective account of human nature.... What he sought to explain was, in fact, the pre-established harmony of the theologians. Science had eliminated the guiding hand of Providence but not the conception of a providentially well-ordered universe. Consequently there was only one possible explanation of this state of affairs:


contrived at the outset with Infinite Cunning, wound up at the beginning of time like a transcendental clock, it would tick on through infinity according to the beneficent laws of nature, a perpetual manifestation of the rationality of things. Human nature was thus conceived to be a part of the universal clock.\textsuperscript{5}

It is this view of human nature which, according to Ayres, has conditioned the "whole way of thinking" in classical economics but which, "nevertheless, economists have showed very little disposition to investigate...." The institutionalists, however, have insisted that a realistic and valid way of thinking in economics must be based upon a realistic and valid conception of human nature.\textsuperscript{6} Just what is a valid conception of human nature, of human behavior, has been one of the more important questions which they have tried to answer—and which we will try to summarize and explain in the course of this and the next chapter.

The Importance of Economics as a Study of Social Behavior

Wesley O. Mitchell, among others, attempted, in his studies and writings, to answer this question, consistently arguing that human behavior was one of the more important subjects to be explained, and that it was one of the primary tasks of the economist to contribute to this explanation. Thus he objected to those who held that psychology and human nature were beyond the proper purview of economists:

For when economic theory has been purified so far that human nature has no place in it, economists become interested perchance in much that lies outside their theoretical field.\textsuperscript{7}


\textsuperscript{6} Cf. ibid., p. 90, for example.

\textsuperscript{7} Mitchell, W. C., "Human Behavior and Economics," QJE, November, 1914, p. 2.
And in another essay he noted that

In reviewing The Trend of Economics, Professor Allyn A. Young predicted that he "will ultimately be compelled" to admit that economics "always has been a study of human behavior." That has long been one of my favorite remarks, though I would like to add, "whether economists recognize the fact or not." But economics should advance with surer steps when economists see clearly what they are really discussing.  

It is the contention of Mitchell, and the other institutionalists, that the main subject-matter of economics is a study of human behavior, but that received economics has chosen not to make this the main point of its study and thinking. It has, rather, adopted without investigation that view which prevailed at the time of Adam Smith, and has continued to elaborate it into a myriad of complex formulations concerning the behavior of price. Thus the orthodox economist has confined his discussion of psychology or human nature to a footnote, or a terse paragraph. The institutionalist, on the other hand, has made this one of the main tenets of inquiry, one of the primary bases to be established as a foundation upon which the superstructure of economic theory is to be built. It is their view that if economics is to contribute to an understanding of the economic system of the twentieth century, if it is to contribute to the solution of today's problems, if it is to serve as an efficient tool for guidance and control, then this preconception of the nature of human nature must be revised.

The institutionalists have argued that economic activity is but one aspect of total social behavior, and that since this is true,  

... the analysis of that activity must comport with the analysis of behavior generally. The classical economists were quite right in deriving their economic principles from the theory of human nature; the fault ... lay in the conception of human nature which prevailed in the

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Mitchell emphasized this same view, insisting that man's activities are not nicely compartmentalized, that we cannot realistically separate the political, economic, religious, phases of his behavior; that "quite literally, we cannot understand any phase of social behavior apart from all other phases."\(^{10}\)

Thus, the subject-matter of economics is seen to be that of human behavior in a total social milieu, not the behavior of prices, or of money, or of entrepreneurs, or the effect of a dose of fertilizer on a piece of marginal land. It was thus that Mitchell further held that "all of the social sciences have a common aim—the understanding of human behavior,"\(^{11}\) that economists must recognize

... that economics ... is a constructive study of human actions, making its own peculiar contributions to the knowledge of social behavior. The like holds true of all the social sciences. They have a common problem and a common working program.\(^{12}\)

And, according to Ayres,

Whatever its form and preconceptions, economics is necessarily a description, an analysis, and even it may be a prediction of human behavior; and consequently it cannot avoid being affected by any important development in the

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9  Ayres, Theory of Economic Progress, p. 89.


study of human nature. The common problem, the central concern of all the social sciences is to understand the social behavior of man and

The economist must himself contribute toward the understanding of human nature. Economic theory, thus conceived, becomes part and parcel of the social psychology we are gradually developing through the cooperation of all the social sciences.

Thus, according to Mitchell's point of view, the economist can neither rest on the "moral sentiments" of the eighteenth century, nor can he ignore the importance of present-day developments in psychology, he must also contribute to a broader social psychology, to a broader understanding of man and society.

The common aim of all the social sciences from the viewpoint of the institutionalists, is a better, a more realistic understanding of man's social behavior. Orthodox economics has failed on this score for it has centered exclusive attention on the behavior of prices and the allocation of scarce resources. According to the institutionalists, the reason for this emphasis has been a mistaken conception of human nature and of human behavior. A conception which has assumed that social activity is the manifestation of individual activity. It is this view with which the institutionalists disagree.

Tugwell, for example, emphasized that the problems of economics must


"be studied from the social point of view" because both the opportunities and the limits for any individual are defined "by the social group of which he is a member." "It is useful," therefore says Tugwell, "to consider the ways and means by which a social group may improve its economic conditions." And any improvement of the economic condition of society cannot be accomplished by approaching the problem from an individualistic orientation, for in Tugwell's view,

It seems not difficult to understand that the prosperity of society is something more than the total of individual prosperities: that social behavior is not to be predicted from a knowledge of individual psychology. And Mitchell, in one of his first published essays, "Human Behavior and Economics," approvingly quotes Edward L. Thorndike to the effect that among adults,

Much perhaps nine-tenths of what commonly passes for distinctively human nature is ... not in man originally, but is put there by institutions or grows there by interaction of the world of natural forces and the capacity to learn.

"Human Nature," says Mitchell, "is in large measure a social product," it is the product of man's social environment, the institutions which have shaped his behavior. And if we are to understand how the economic system functions in a particular society, we must abandon the individualistic orientation which assumes that man has certain natural propensi-

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19 Ibid., p. 2.
ties and that society is but a product of these propensities—an assumption which has continued down to the twentieth century to furnish a basis for orthodox economics. According to Mitchell, "it is mass behavior" that is of concern to the economist. "Hence, the institutions that standardize the behavior of men create most of the openings for valid generalizations." Thus the proper study of mankind is not man, but the institutions and social forces which mold man's behavior; a valid understanding is not to be gained by generalizations made by the "treacherous method of reasoning on the basis of imputed economic motives," but by accepting "as 'scientific' only those theorists who make the cumulative change of institutions their chief concern."21

This is basically the position which John R. Commons also developed over a period of some thirty years. At the level of generalization of concern to the social sciences, the individual is irrelevant, for, "instead of individuals the participants are citizens of a going concern." These "individuals" learn the customs of the society of which they are a part, of "cooperation with other individuals," of "subordination to the working rules of the many concerns of which they are members."

They meet each other, not as physiological bodies moved by glands, nor as "globules of desire" moved by pain and pleasure, similar to the forces of physical and animal nature, but as prepared more or less by habit, induced by the pressure of custom, to engage in those highly artificial transactions created by the human will.22

Thus, no human activity or motive is economic per se. Inherently, hunger or pain or gain are no more economic than is love or sex or pride of work-


21 Ibid.

22 Commons, Institutional Economics, pp. 73-74.
manship or the attempt to secure a good reputation. People will labor (if society so defines it) or play (if it is so defined) for a wide variety of reasons—as numerous anthropological and sociological studies have shown. Production and economic activity in their entirety are a social, not an individual phenomenon. There is nothing "natural" about economic activity; there are no "natural" economic motives of individual men of which the rules and institutions of society are a manifestation. To the contrary, men's activities are a reflection of the particular society of which they are a "participant." And the focus of attention must therefore be shifted to the cultural, the social, level of generalization.

This is the point, Ayres has insisted, which differentiates the orthodox economist from the institutionalist. In his view, the "objective" of orthodox theory "is now as it has always been, the explanation of social order ... as an expression of human nature," whereas for the institutionalists, "the objective is the explanation of human nature (working, buying, consuming, investing, and so forth) as an expression of the social order..." It is his contention that economics is a study of the total social economy, but that classical economics (in its entirety) is an attempt to explain economic patterns as the consequence of the concatenation of the individual acts of a vast concourse of individual human beings who are what they are "by nature." But human beings are not what they are in any intelligible sense of the phrase "by nature."

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23 Cf., for example, Herskovits, M. J., The Economic Life of Primitive Peoples, and Karl Polanyi, The Great Transformation, especially chaps. III, IV, and XI.


Quite to the contrary, argues Ayres, "human beings are social phenomena." This being the case, "social patterns are not the logical consequents of individual acts; individuals, and all their actions, are the logical consequents of social patterns." Institutionalists, says Ayres, simply propose to accept the "full significance" of this present-day conception of human nature in order to arrive at a "functional conception of human behavior" and thereby lay the foundation for a more functional economics.

Thus, the institutional economists, as Commons argues, "instead of investigating an individualistic human atom, ... investigate the working rules and administrative decisions of all collective action." This collective action which Commons deems of vital significance for economic analysis did not, in his opinion, become important in America until the decade of the 1850's. Such action, therefore, "seemed revolutionary to the economists who followed Adam Smith. To them, only individuals felt pleasure and pain and did the bargaining on the markets." To Commons, however, an individualistically oriented science cannot contribute towards an understanding of the economic system of today because it is not a manifestation of individuals qua individuals. Individual behavior is molded and controlled by the working rules, the institutions, the collective action of society. And, it is important to note that collective action means more to Commons than the "mere control" of individuals. "It means liberation and expansion of individual action; ... collective action is literally the means to liberty." The fruitfulness for economics is that

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28 Commons, The Economics of Collective Action, pp. 34-35; we shall return to this point later.
we can substitute for "a vague concept of human nature," the more meaning-ful and usable "transactions and the working rules of going concerns wherein collective action controls individual transactions." It is more meaningful and usable, for as we shift to the conception of our science as but one of the sciences dealing with human behavior,

... we find our attention focusing upon the role played in behavior by institutional factors. ... It is these widely prevalent social habits, learnt afresh with modifications by each generation, that make our behavior so different from that of our ancestors, and that will make the behavior of our descendants different from ours. 30

This emphasis upon the factors molding behavior is important, as Mitichell pointed out, for, in economics, as in all other sciences, "we desire knowledge mainly as an instrument of control, ... the alluring possibility of shaping the evolution of economic life to fit the developing purposes of our race." 31 If economics is to take its place as a useful instrument of control, then it must adopt this evolutionary point of view with respect to human nature; it must abandon the conception of human nature as adopted by the eighteenth and nineteenth century economists, for the institutions, the social habits, the working rules which shape and mold this behavior, have changed since that time. The most important recent development in this connection, which Mitchell thinks is helping the progress of economics, is that the "records of human behavior, regularly collected and published, are becoming fuller and more accurate." This has enabled the economist, if he will use them, if he will adopt this social outlook, to "substitute knowledge of fact for uncertain opinion;

29 Commons, Institutional Economics, p. 655.
31 Ibid.
analysis of actual processes for speculation about what would happen under hypothetical conditions.\textsuperscript{32}

The institutionalist argues that if economic theory and economic analysis are to be useful "instruments of control," then a more realistic understanding of human nature, of psychology, is mandatory. As J. M. Clark pointed out, the orthodox utility theory rests upon only one phase or aspect of human nature, "the static or hedonistic phase of guidance by individual initiative." But as we have discussed above, these economists hold that the importance of individual action, prevalent in the nineteenth century, has been replaced by the collective action of the twentieth. And it is for this reason that Clark continues, saying that "to the economic problems of a century ago this Individualistic phase of guidance was supremely relevant, but for the problems of today it is the other phases of guidance that claim attention.\textsuperscript{33} Thus, the institutionalist, as typified by Clark, is not

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...satisfied to start with conventional treatment of human nature, which separates out certain supposed economic motives for purposes of specialized study. We shall need instead a more rounded treatment which gives us some basis for judgment as to what the needs of human nature are and the relative importance to the community as a whole of meeting these needs in varying degrees.\textsuperscript{34}
\end{quote}

This, of course, is the main theme of the institutional economists—that economics should be a functional tool for control and direction, but if it

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is to assume this role, then the concept of human nature which has plagued economic thinking since the eighteenth century must be revised. If the economist accepts "the starting point of 'what ought to be done' and the end of more orderly arrangements," then, according to Tugwell, "the method of social science easily reveals itself as the study of individual behavior in a social milieu." Although we have in the past reversed this procedure and studied social behavior from an individualistic point of view, this must be abandoned--if we are attempting to direct the economic system toward human welfare, if the search is for "what ought to be done."

While individual initiative and individual activity (both also socially defined) may have been more prevalent in the eighteenth and nineteenth centuries, and therefore more meaningful for economic analysis at that time, beginning in the decade of the 1850's, they have been increasingly replaced by collective or group action. Psychological adjustment today is largely a matter of adapting to the mores of the social group in some form of collective behavior. The opportunities for any one individual's achievements and the limits to those achievements are defined and limited by collective action. And economic theory, if it is to be this useful tool, must take cognizance of this changed nature of human behavior. Man is not, in the view of the institutionalists, a rational, calculating, creature. He thinks only under stress, relying on habits formed by his institutional environment for the direction of the greater portion of his activities. And economics, as but one of the sciences concerned with social activities, must therefore put more and more

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36 We will return to this point in the next chapter.
emphasis, must increasingly concern itself with these institutions which mold and shape economic behavior.

What these economists are saying is that what has been traditionally subsumed under human nature is itself subject to change; that it is not a static, fixed, set of activities. Economic activity is not the manifestation of certain given motives. But the early economists, in the opinion of the institutional economists, took the then-existing institutions as being a manifestation of an eternal human nature, of certain fixed human propensities or motives, and sought to show how the economic system functions as a result of these inherent qualities. Thus, orthodox theory concerned itself with the workings of a market mechanism which could properly function only in the absence of any restraints upon man's basic nature. There was no need to examine human nature or the psychological assumptions underlying economic theory because the market mechanism itself is but an expression of man's most basic traits, his innermost drives. Economics, therefore, needs merely to work out the logical consequences of these motives under different assumed conditions.

The institutionalists, on the other hand, argue that human behavior is socially determined, that man is primarily a reflection of his social environment and if, therefore, we seek to understand the economic system, we cannot extrapolate an assumed inherent nature of man. Quite the opposite, we must closely examine the psychological foundations upon which economic theory is built.

The Importance of Psychological Assumptions in Economics

It is the contention of the institutional economists that every economist must and does use psychology—even if any particular economist opposes the use of it. In Clark's view, for example, for economics to
rely on the "fact of choice," does not take economics out of a dependence upon psychology, "save at the cost of becoming utterly meaningless." The economist may attempt, says Clark, to ignore psychology, but this is impossible for his is a science of human behavior. Any view or position that he may adopt (for example, that people attempt to maximize satisfactions) "involves psychological assumptions, whether these be explicit or not." Whether the psychological premises be explicit or implicit, they are, in the opinion of the institutionalists, a necessary base upon which any science of human activity is built. As John Gamsb put it, psychology is to the institutional economists "like the foundation of a house." When the structure is completed, the foundation is unseen, seldom discussed, oftentimes forgot. It always, however, plays a limiting and determining role; it forever limits the size, shape, and use of the structure above. In the same fashion, economic theory is but the superstructure, limited and determined by the psychological foundations upon which it is erected. This being the case, it is important to understand and appreciate the psychological foundations of economic theory, for the particular use, the function of, the superstructure is determined by that foundation.

The orthodox economist, however, has seldom regarded a knowledge of psychology, or of the psychological assumptions underlying his economic theory, as necessary or important. As Mitchell noted, when economic

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theory was in its formulative stages, all psychological concepts were but tacit preconceptions from which economic theory proceeded uncritically. "Most of the older writers made no overt reference to psychology, but tacitly imputed to the men whose behavior they were analyzing certain traits consistent with common sense and convenient as a basis for theorizing." These preconceptions continued to dominate economic theory; they were seldom critically analyzed or evaluated. They were as completely out of sight as the foundations of a house. Even when economists did become definitely conscious of what they had been assuming concerning human nature, it might have been expected that they would apply to psychologists to gain a knowledge of the mind and its modes of operation. On the contrary, they adopted the practice of formulating for themselves "a few principles of nature," proven by past experience to be serviceable for the ends of economic inquiry.

Thus, in the view of the institutionalists, economic theory came to be cast in a certain mold, its function or use was limited to that which had been built into it from the tacit preconceptions of the economic behavior of man in the eighteenth century. Economic theory thus came to be price theory, for the price system was seen as the recorder of certain basic traits, certain inherent economic motives, which were eternal and universal. And while this type of economic theory may have been useful in the past, it no longer serves the needs of today. What is needed, then, is a thorough and critical examination of this foundation, if the superstructure of economic theory is to become a useful tool for economic

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reform. The institutional economists argue that man does not have certain inherent economic motives and if economic theory is to have any functional meaning, it must divorce itself from this bias and establish itself upon a firmer and modern foundation, a foundation built with today's materials and in light of today's needs. The institutional economist agrees with William McDougall "that some knowledge of the human mind and of its modes of operation is an essential part of their equipment, and that the successful development of the social sciences must be dependent upon the fulness and accuracy of such knowledge."\(^43\)

It should of course be noted, that in psychology, as in economics or any of the social (or physical) sciences, there are several dissident schools of thought—that psychology is subject to change as new insights and understanding are brought to light. Does this, then, mean, as Robbins asserts, that

> If ... Economics rests upon particular psychological doctrines, there is no task more ready to hand than every five years or so to write sharp polemics showing that, since psychology has changed its fashion, Economics needs "rewriting from the foundations upwards."\(^44\)

If psychological theory does change, and if at any one time, there is disagreement among psychologists, it might seem relevant to ask which of several interpretations is correct. In answer to this question, John Gymbs said that "the proper answer is that the question is unconstructive and deserves no directly reply." He points out that the professional psychologist is one who is reasonably well informed on the nature of human behavior; in spite of differing views, he does have an understanding of the

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\(^{44}\) Robbins, op. cit., pp. 83-84.
problem of human behavior that is not possessed by others. And while various psychologists may disagree, any particular member is certainly more competent than those who have never thoughtfully studied and considered the subject. Despite all intra-fraternal disagreements, the important point is that they have reached certain areas of agreement, and it behooves the economist to take note of such advancements, to verify or reject them, to add to them if possible. Although Robbins may demur at having to rewrite economics from the ground up every five years, in the view of the institutionalist, he is still using as the basis of his economic theory, the naive and discredited psychological preconceptions of the eighteenth century. And it is this bias which has rendered economic theory useless for the needs of the twentieth century. If the economist will base his conception of man and human behavior upon the findings of modern psychologists, then it will have a much better chance to succeed. If he does not, according to Clark, "he will not thereby avoid psychology. Rather he will force himself to make his own, and it will be bad psychology." 

The preconception with which the eighteenth and nineteenth century economists began was that of man’s natural propensities, of his basic instinct to "truck, barter and exchange," that man is naturally lazy and must be coerced into activity, that he is interested only in promoting his own self interest. From these assumptions, the whole theory of a natural order in the economic and political system was deduced. If there were

45Gambs, op. cit., pp. 31-32; see also pp. 196-197, above.
46Cf., for example, Hamilton, David, Newtonian Classicism and Darwinian Institutionalism (Albuquerque: The University of New Mexico Press, 1983), chap. iii.
no artificial restraints upon these basic proclivities, then an economic organization would emerge which would be in accord with the original nature of man, an economic organization which would, then be "natural."

It was assumed by the economists, in the words of Commons, that

... economic power was limited by free competition between equal individual owners, and this was the reason why economic agreements were deemed to be voluntary rather than coercive. It followed that the only place of government in the economic scheme was in the negative power (laissez faire) of preventing conspiracy or monopoly, either of which interfered with free competition.48

Thus, if each individual was permitted to follow his own self-interest according to the dictates of human nature, then the best of all possible worlds would be realized, for it would be a product of the unrestricted functionings of an unrestricted human nature. In the view of these economists, as expressed by Ayres,

The moral philosophers of the eighteenth century believed the institutions of their day to be an expression of ... human nature, and the orthodox economists of the twentieth century still confine their discussion to the framework afforded by prevailing institutions because they conceive the institutions to be an expression of human nature. The institutionalists decline to do so because they hold precisely the opposite view of human nature, to wit, that it is an expression of institutions.49

Holding that an economic system based upon Natural Law would emerge from the unrestricted activities of man's basic economic motives, it remained only for the economists to work out the explanation of that economic system. It was thus that economics turned to and remained a theory of price. This, in the view of the orthodox economist, is the whole significance of the price system—the meaning of economics and of the eco-

48 Commons, Economics of Collective Action, p. 215.
nomic system is to be found there. The institutionalists, however, disagree with this interpretation, for they insist that it stems from a misunderstanding of human nature. The institutions of society are not an expression of some original human nature, rather the institutions and mores of society mold and shape human nature. And if economic theory limits itself to the framework provided by the prevailing institutions—if, for example, it confines itself to the functioning of the price system—then it is to that extent limited in its usefulness. It is for this reason that economists must carefully examine the psychological assumptions which have been the foundation of economic theory for a century and a half. The science of economics was founded upon the conception of a human nature which included haggling in the market, the tendency to "truck, barter, and exchange," the pursuit of self-interest, and the abhorrence of work. It was founded, in short, upon

a conception of human nature of which the pecuniary system seemed to be a natural expression. Any critical discussion of the classical principles of political economy must therefore take cognizance of the theory of human nature from which those principles emerged.  

On the assumption that the "passions and instinct" of man had been so designed as to produce, in the absence of artificial restraints, a natural community of interests, economics undertook, and continued in the effort, to describe this "wonderful contrivance"—the price system.

Unlike modern orthodox economists who deny the importance of psychology, or dismiss it with a cursory footnote, institutionalists attach importance and relevancy to it. Economic theory, as is true of all social sciences, is a science of human behavior in a social milieu; it cannot avoid psychology or a conception of human nature simply by

50 Ibid., p. 224.
concentrating on price theory. Prices and indeed the entire price system can have meaning only in terms of human behavior, but the meaning that is imputed to it, is in the view of the institutionalist, a false and misleading one. It was because the eighteenth century concept did offer an explanation of how men seem to act that it exerted so profound an influence upon economic thought; and in the opinion of Mitchell,

It is because they are developing a sounder type of functional psychology that we may hope both to profit by and to share in the work of contemporary psychologists. But in embracing this opportunity economics will assume a new character. It will cease to be a system of pecuniary logic, a mechanical study of static equilibria under non-existent conditions, and become a science of human behavior.51

The orthodox economist justifies his position by insisting that his only concern is with the machinations of the price mechanism; he insists that the subject matter of economics is delimited by the market mechanism. This being the case, he argues that a knowledge of psychology is inessential. The only concern of the economist is with the fact that people do buy, that they do have scales of preferences, that they do lay their money on the line for this or that article. Robbins' position on this point may be taken as representative:

... all that is assumed in the idea of the scales of valuation is that different goods have different uses and that these different uses have different significances for action, such that in a given situation one use will be preferred before another and one good before another. ... All that we need to assume as economists is the obvious fact that different possibilities offer different incentives, and that these incentives can be arranged in order of their intensity. The various theorems which may be derived from this fundamental conception are unquestionably capable of explaining a manifold of social activity incapable of explanation by any other technique. ... Here, as so often, the founders of Economic Science constructed something more universal in its application than anything

The institutionalists take exception to this position on at least two counts. In the first place, in spite of Robbins' protestations, he does assume a certain view of human nature and the significance that can be derived from it: that people do act according to some scale of preferences, that incentives can be arranged in order of their intensity and that from these given truths, the economist is "unquestionably capable of explaining a manifold of social activity incapable of explanation by any other technique." And this insight, it should be noted, is "more universal in its application" than even the founding fathers dared dream. In other words, we have here a universal rule of behavior which gives us an understanding of any economic system, at any time, in any place. The price system is therefore the key to unlock the mystery of any economic system. And it is precisely this position which the institutionalists criticize. The economic system is seen by the orthodox economist to be an expression of man's basic nature (for example, his acting according to some scale of preferences), whereas for the institutionalist, man's basic nature is an expression of the society of which he is a member. Economic or social phenomena are not the result of the acts of individual men who are what they are by nature (lazy, selfish, calculating, acting according to some scale of preferences...), and any attempt to so proceed, any attempt to read the meaning of the economic system in the horoscope of price, is to that extent limited in its application as a functional science.

The Nature of Rationality

If, says Mitchell, we look behind the facade of economic theory to

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52 Robbins, op. cit., pp. 85-86.
the psychological assumptions which are "really implied in and essential to the conclusions," we will find that they are rather broad and simple. The assumptions would be essentially limited to

... the irksomeness of labor, the satisfaction derived from the consumption of goods, the increasing intensity of the first and decreasing intensity of the second as labor and consumption proceed, the emergence of new wants as the old become partially satisfied, the preference for present over future satisfactions, and sufficient intelligence to recognize and to act in accordance with these simple conditions so as to attain ends in the easiest known way.\(^53\)

Mitchell, however, questions the validity and usefulness of both starting and stopping with this list of assumptions. They are facts or hypotheses to be explained, to be investigated, not premises from which to draw conclusions about the nature of the economic system.\(^54\) Thus, rather than an unquestioned assumption about the nature of man, "the fact that labor is irksome is a fact to be explained; indeed a very puzzling problem rather than a simple fact." How can we, asks Mitchell, "reconcile man's aversion to the activity necessary for his sustenance with his success in outstripping all other animal species in the struggle for survival and for domination?"\(^55\) Man is a doer, an actor, an active participant—not a vegetating, passive, bystander. And the same questions apply to these other premises of orthodox economics, they are "traits whose fundamental importance makes their explanation fundamental problems." These, according to Mitchell, are the central problems of economics, not a "solid foundation upon which elaborate theoretical constructions may be erected without more ado."\(^56\) The more important problem to Mitchell was to explain


\(^{54}\) See Chapter Five, above, for a more complete discussion of the difference between the institutionalists and the orthodox economists with respect to the use of assumptions and hypotheses.

\(^{55}\) See pp. 199 and 277, below.

economic theory and the economic theorists—why they came to attack certain problems but ignored others, why they took certain premises as given without exploring the meaning and significance of those premises. Instead of deducing from certain premises about human nature, one has to find out what they do and why they do it. And that is a matter of observation. Observation and investigation have been all too infrequently used by the economists; instead, they have deluded themselves "with strictly logical accounts of the world ... they have always fabricated theories for their spiritual comfort and practical guidance which ran far beyond the realm of fact." Internal consistency, strictly logical deductions, are not the test or truth; the test of truth is in the usefulness of conclusions. What is needed is an overhauling of the basic premises, the given view of human nature from which the economists had proceeded.

Mitchell was thus critical of the rationality which was imputed to man by the orthodox theorists. "It is a misconception," says Mitchell, "to suppose that consumers guide their course by rationcination—they don't think except under stress. There is no way of deducing from certain principles what they will do, just because their behavior is not rational." Men of course do think, but for the greater part of their activities they rely on socially formed habits. Thus, says Mitchell,

The picture given by so many economic treatises of buyers coming to the market with their minds already made up about what goods they wish, and what price they are willing to pay at need for successive units of each kind, is an undeserved compliment to the mental energy of mankind.

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57 Letter from Wesley C. Mitchell to J. M. Clark, dated August 9, 1928, reprinted by permission in Preface to Social Economics, p. 412.
58 Ibid., p. 411.
59 Mitchell, Business Cycles, the Problem and Its Setting, p. 165.
A closer study of man's activity in actual economic behavior reveals almost no sign of the "human rationality conveyed by our theoretical treatises." Furthermore, a study of modern psychology reveals much more about "habits, conditional reflexes, action patterns," than about "felicitic calculus, declining utility, or curves of indifference." In many problems much more potency is assigned to "suspicions, fears, hatreds, and stupidities that do not yield to reason." In the same vein, Tugwell noted that "the present generation of psychologists ... have already pretty well revolutionized the scientific definition of human nature." The role of reason, in particular, is considerably less than "the old common-sense view supposed." According to Tugwell's understanding of modern psychology, man does "not act in response to reason, he, through reasoning, decides upon the "repression" of those socially "undesirable modes of action," because he seeks primarily "the satisfactions of social approval."

The fatal error of the orthodox economist has been, in Mitchell's view, the study of human behavior "from inside the individual":

Introspection of their own feelings and common observation provide the data; common sense decides what items in the array are typical; common logic weaves these items into a theory. This is the most intimately human and the most treacherous of all professedly scientific methods.

To understand economic behavior, we cannot "look inside the individual and his capacity to abstract from the totality of experience...rather

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we must look outside the individual to the habits of behavior slowly evolved by society and painfully learned by himself.\textsuperscript{63} According to Mitchell, the behavior that is of direct concern to the economist is not the rational calculation of orthodox theory, but that which is 'directed by certain social institutions, that is, by certain widely shared habits of feeling, thinking, and acting in frequently recurring situations.'\textsuperscript{64} Economic behavior is not the sum total of disparate individuals each acting according to his own scale of preferences in order to maximize his total individual satisfactions; it is, rather, the socially and institutionally directed behavior, the "behavior of men in organized communities."\textsuperscript{65} The central concern of the economist is not human atoms, each acting according to his given propensities; it is rather the social concepts, the social institutions, which organize and control that behavior. These social institutions which Mitchell defines as

\textit{\ldots the prevalent habits of thought which have gained general acceptance as norms for guiding conduct. In this form the social concepts attain a prescriptive authority over the individual. Their daily use by all members of a social group unremittingly molds these individuals into common patterns without their knowledge, and occasionally interposes obstacles in the path of men who wish to act in original ways.}\textsuperscript{66}

Thus, a sovereign self, acting according to an inherent set of motives is a mistaken view of economic behavior; it results from the intro-


\textsuperscript{65} Ibid., p. 255.

spection of the earlier economists and which was later taken as one of the given premises for economic theory. It was in this sense that Clark criticized the psychological assumptions of economic theory, noting that

We built economics on the idea of rational choosing, only to be told that rational choosing is but a small and very imperfectly developed part of our mental life. We thought of the self as a sovereign will, in some sense independent of the universe. Men had their wants, and the universe granted or denied their gratification. Production consisted in turning out goods and services to suit these pre-existing wants. Now, however, we find a self which is but a series of attitudes toward the universe; a set of tendencies to react and to seek, which are ... developed and given their shape and direction by the universe outside.67

In the view of these economists, the science of economics is not as simple and well-defined as some have assumed it to be. It is, in their view, but a part of a larger attempt to understand man's behavior in the social setting of the twentieth century. To do this, however, requires that the foundations of economic theory be strengthened and perhaps replaced in light of today's knowledge and needs. Mitchell noted that the usual defense of the orthodox economist was that according to the accepted (by the orthodox economist) definition of "the scope and method of economics, the science is protected by the statute of limitations." Economic theory undertakes only to explain the "production, evaluation, and distribution of goods in society as at present constituted." All other phases of the problem, including the psychological premises upon which their theory is based, they leave to other areas of the social sciences. "This division of labor," however, "betrays the economic theorist into tacitly misconceiving the mental processes in-

involved in economic activity. The most serious of his misconceptions concerns the role played by concepts having a social origin.\textsuperscript{68}

\textbf{Is Human Nature a Given}

Much has been learned about the nature of human nature that was not available to the earlier economists who of necessity had to rely on introspection and common-sense notions about man's behavior. This advantage has been due, in large part, to the increasing study of man and his behavior in differing societies, to the fuller and more accurate records of human behavior which are regularly collected and published.\textsuperscript{69} The common-sense view of the earlier economists was of man as a passive agent, moved only by sensations (or expectations) of pain or pleasure (or of utility or disutility or ...). The more recent studies in psychology and sociology, according to the institutionalists, de-emphasize the importance of motives or of stimuli. They view man as being a creature of activity, of being, as Tugwell put it, "restless and exploratory."\textsuperscript{70} They agree with John Dewey that "in truth man acts anyway, he can't help acting. In every fundamental sense it is false that a man requires a motive to make him do something."\textsuperscript{71} The question to be probed, then, is what are the forces that direct this activity, that mold human behavior. In the view of the institutionalist, this activity—which is natural to man—is defined and directed by the social context


\textsuperscript{69} See pp. 179 and 182, above.

\textsuperscript{70} "Experimental Economics," \textit{The Trend of Economics}, p. 372.

in which it takes place:

There is no movement ... of the human body which is not that of a physical organism and which therefore is not what it is because that organism is of the biological species homo sapiens; and similarly there is no organized activity of any human being which is not socially organized.  

Human behavior, then, is a developmental process, a process of adaptation and adjustment. It is the function of economic theory to participate in that cumulative developmental process, but this means adopting an evolutionary, developmental, view of human nature.

It is in the changing institutional scenery, the "changes of collective rules, including custom and going concerns," that Commons finds "the evolutionary theory of economics. According to Commons, "no better demonstration of the reason why the orthodox economist could not develop an evolutionary theory has been given than Veblen's characterization of the faulty conception of human nature of the Austrian economists." 

This can only be avoided, says Commons, by shifting attention from the individual to the collective action which controls and defines individual behavior, by adopting what he terms as

objective psychology instead of the subjective psychology of pleasure and pain. It is the psychology of language, of duress, coercion, persuasion, command, obedience, propaganda. It is the psychology of physical, economic and moral "power," the truly "behavioristic" psychology of economics in preparing for the unknown future. 

Since the middle of the last century, economic activity has become increasingly collective in nature, with the growth of the trade union, the rise of the corporation, the increasing use of political action to

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72 Ayres, Theory of Economic Progress, p. 93. Cf. ibid. chap. iv for a more thorough treatment of this thesis.
73 Commons, Institutional Economics, p. 656; see also pp. 95 ff. above.
74 Commons, Economics of Collective Action, p. 109.
solve what were previously defined as the economic problems of the individual, the competitive and individualistic aspects of the economic system have been replaced by collective action. The earlier economists were laissez faire as regards any form of collective action, and in particular of course, governmental action. They viewed government as repressive to man's basic nature; its function was to redress grievances rather than to guide development. The institutional economist, on the other hand, investigates to see how the government, or some other form of collective action, leads people to better economic adjustment, to show that social harmony rests not upon some form of natural harmony, but upon a state of order worked out and continually modified by man.\textsuperscript{75}

Thus an important objection to the orthodox position is that it denies to economics its proper function. In the view of the institutionalists, it is the function of economics and of the economist to provide a basis by which the economic system can be controlled and guided for the welfare of society.\textsuperscript{76} This being the case, any consideration of the welfare of either the individual or of society which excludes consideration of human nature, or which assumes a mistaken view of it, is unthinkable. Thus Tugwell emphasized that

\begin{quote}
... it is certainly true that we cannot know what it is that we want for humanity from industry without knowing what the nature of humanity is that is to be affected. To attempt to direct the economic system toward human welfare without understanding human nature would be quite as futile as the attempt to cure disease without a preliminary study of psychology.\textsuperscript{77}
\end{quote}

The economist, in Tugwell's view, cannot therefore confine his attention

\begin{flushleft}
\textsuperscript{75}See pp. 233 ff. below. \\
\textsuperscript{76}See pp. 45 ff. above. \\
\textsuperscript{77}"Human Nature in Economic Theory," JPE, June, 1922, p. 344.
\end{flushleft}
to the producer and consumer and "their transient appearances in the spotlight of the market place." It is not enough simply to explain the functionings of a price system under various assumed conditions. The price system has meaning only insofar as it is a manifestation of man's basic traits (lazy, selfish, acting according to some scale of preferences), and if these are not the basic and inherent traits of man (as the institutionalists insist they are not), then it is impossible to rely upon the price system as the directive force in our economy. Economists, in Tugwell's view,

...are imperatively required to be social scientists in reality; and this means that they are to say what it is the industrial system does to men and to define what it is men have a right to expect from industry. ... He has at his disposal to define the ideal direction of all the intricate and powerful forces of social pressure and the provision of alternatives.

This directive force is the function of the science of economics, from their instrumentalist view, and this being the case, then a more thorough and modern understanding of human nature is manifestly necessary.

Taking human nature as a given, as does the orthodox economist, also permits no light to be shed upon current economic behavior as an aspect of social culture; it permits no critical examination of the institutions which mold that behavior; it instead, becomes an apologia for the existing institutional fabric of society. But in the view of the institutional economists, it is the proper function of economics to examine and to evaluate the institutions of society, to aid in the constant revision of those institutions which is mandatory if society is to progress.

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78 We shall return to this problem of the price system in Chapter VIII.

Taking human nature as a given, thus, by definition, excludes large areas from critical analysis. It builds a bias into the subject-matter which is not easily overcome. Thus, the social organization of capitalism (capitalist, laborer, landlord) becomes fixed and therefore beyond inquiry because they represent the eternal nature of society. When antipathy toward abominable conditions of work is explained as "indolence," when trade and commerce are said to be the natural result of man's rational behavior in light of his own scale of preferences, when the profit motive is identified as the prime mover of the economy, then all are placed beyond the purview of inquiry and examination; since they are but manifestations of original human nature, inquiry and appraisal are quite pointless.

The institutionalists argue that these subjects are not the "givens" of his science; he does not regard man as having certain basic traits from which the functioning of a price mechanism is deduced. These traits are not to be disregarded, are not to be confined within the walls of an original human nature, "but they will be treated as problems requiring study, instead of being taken for granted as constituting explanations."

In the view of the institutionalists, man is not a passive, inert, quiescent mass, requiring some prodding to move him into activity. He is rather an actor, a participant; inaction is in fact the greatest of woes. Thus the institutionalist is not satisfied to take the orthodox explanation of the profit motive as the prime mover of certain classes

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80 Clark, for example, does not confine himself to this given social framework; see, his "The Socializing of Theoretical Economics," The Trend of Economics, pp. 73ff, and in particular the section entitled Non-Euclidean Economics, pp. 86-101.

81 Mitchell, "Quantitative Analysis in Economic Theory," The Backward Art of Spending Money, p. 27.
of men. They do not see that the psychology of the entrepreneur is so
different from that of the scholar, the inventor, or the scientist.
They do not see that the one is a burdensome and obnoxious activity in
which men will engage only because of having been bribed by the hope of
a pecuniary reward. They argue that this is a perversion of any meaning
of the nature of man, that it is simply a rationalization of existing
practices or of the existing class structure. It becomes in a very real
sense of the word, a system of apologetics for the existing institutional
framework. Thus Tugwell insisted that it is a false simplification to re­
duce the problem of human motivation to rent, interest, wages, and pro­
fits. These distributive categories become a justification for the
present system because "each furnishes an incentive to distinct individ­
uals to do a distinct thing." This being the case, it becomes socially
mandatory that this incentive never be encroached upon. The real danger
inherent in this orthodox treatment is that these distributive categories
come to be

... taken as an expression of an ideal, a sort of classi­
cal absolute, they are seen at once to contribute enor­
mously to that symmetry of outline and perfection of unity
we associate with fully developed classicism in economics.
They harmonize with all the other elements and become an
indispensable part of the whole. If it can be assumed that
these are the reasons why people conduct themselves as they
do, then there is a sort of justice in the fact that these
are the shares that come to them in the distributive pro­
cess.

Thus the corrected and fully developed classical or
orthodox economics of today, sometimes called marginism,
becomes not only an analysis or a hypothesis but a program,
something so true it is worth fighting for. Because if it
is broken down, even in part--by the wage workers encroach­
ing on profits, to return to our former figure--then some­
thing disastrous impends from a lack of proper incentive
for management, which will cease to function, or at least
show a progressive tendency toward slacking. So that all
distributive shares must be kept within their proper limits
or else it must be found that progress is slowed up and the
future of society endangered. The end of all this is that
distribution comes to be thought of as controlled by some­
thing like natural law. Tugwell holds that conduct is "infinitely more complex" than the orthodox treatment would imply, that men in their economic activities have many complex, and socially defined reasons why they behave as they do. One advantage, of course, in this view of human nature is, as Mitchell pointed out, that it "greatly simplifies the task of social science. Whenever one can make out what it is to men's interest to do, one can deduce what they will do."83 It does, however, simplify the task to the point of meaningless. It is meaningless, because in the view of the institutional economists, it is a gross distortion of human behavior to reduce economic activity to a simple problem of motivation; more important, it removes this whole area of the economic system from inquiry; it becomes an apologia for existing institutional practices.

The "dependence" of our society, for example, upon the profit motive, upon acquisitivism, has been noted by many, since this is supposed to be the dynamic element in economic development. Tugwell recognized that there is indeed a "quite merciless play" upon this social trait. "But this does not," in his view,

excuse the economist for hiding acquisitivism under a mask of productive virtue, nor for justifying what becomes a ruthless and unintelligent directive force in industry, leading nowhere in particular except to the enlargement of this acquisitivism and the final justification of it in our common morality.84

And yet the dependence of economic theory upon a particular view of human nature, and the conclusion that the price system, indeed the eco-

nomic system in general, is a manifestation of that basic human nature, leads inevitably to that justification. The result has been that economists have been unable to divorce their analyses from the given institutional structure, they have been unable to inquire critically into and examine alternative methods of procedure. To Mitchell and the other institutionalists, struggling with problems of economic and social reform,

... there is no problem of greater speculative interest or greater practical import than what is original in human nature. Logically, the issue between Godwin and Malthus, between the Philosophic Radicals and the Conservatives of Mill's day, between the Socialists and the "Stand Patters" of our own time, involves a difference of opinion how far and how fast man's nature can be made over.®

If human nature is unchangeable, if it is one of the "givens," if man does have certain traits and the economic system (wage payments, profit motive...) are but a manifestation of those traits, then nothing can be changed in the institutional scenery, except at great peril. We dare not, for example, encroach on the profit motive by taxes for this will endanger the whole system. And if these be true, then the orthodox economists are correct in confining their attention to an after-the-fact analysis of price. If economic theory is a justification of existing practices and institutions, then it is simply a justification of the only possible set of institutions compatible with man's basic nature. The institutionalist, however, argues, that this view rests upon a false premise—the psychological assumptions of orthodox economics. The original nature of man is not one of the "givens"; it is, rather, one of the factors to be taken into account; it is one of the "variables." Only by taking human behavior, and the importance of psychological knowledge, into consideration, can economic theory overcome the biases, the limita-

tions, built into it by the assumption of human nature which is either explicitly or implicitly held by the orthodox economist.

If the economist is to shed light upon the darkened alleys of today's problems, if he is to assist materially in the problem of social and economic reform, in the problem of controlling and directing the economic system, then the science of economics needs to be re-examined from the foundation up. This involves, among other modifications, the change from "a passive to an active participating mind, and second, a change from individual action to collective action." It means that man is regarded as being "restless and exploratory," rather than passive and inert. It is a conception of man as an initiator of action, rather than a passive receptor, dependent upon motives and incentives—either monetary or otherwise. While man is primarily a creature of socially determined habits, a product of the institutional forces of his society, he can and does learn to adjust; and one function of the economist is to point out where present-day institutions and their derivative habits are outmoded, where they have become a hindrance to the smooth functioning of the economic system.

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87 See pp. 241-245, and 279-296, below.
CHAPTER VII

THE INDIVIDUAL IN MODERN SOCIETY

Human Nature Versus Social Nature

As has been indicated in the previous chapter, the institutionalists view the individual as being a product of the institutions of his society. They argue that in order to understand economic, or any other form of social behavior, it is necessary to begin with a social point of view since individual activity is derivative from the customs, the mores, the institutions of society. They hold that the orthodox economists, who began with the opposite point of view, have simply taken the easier way out, that they have attempted to explain human conduct and human activity in terms of the inexorable laws which govern human nature rather than in terms of the social environment in which that activity takes place. They have, as Commons repeatedly pointed out, attempted to explain all economic conduct in terms of one principle—that of self-interest. All action must be induced; in the absence of some enticement, some advantage or satisfaction, the individual would remain at rest. It is only by dint of effort or pain or disutility that the organism engages in activity, and that activity will not be forthcoming without the promise of pecuniary reward. And it is thus that orthodox economics emphasized the role of the entrepreneur and the profit motive. The tiller of the soil, the laborer, the artisan, must work in order to subsist; the problem is how to ensure effort over and above this bare minimum. The potential entre-

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preneur may choose to provide society with the fruits of his endeavor, or he may choose not to; and given the passive nature of mankind, he will choose not to do so unless the pecuniary rewards are sufficiently great. Thus, as Professor Girvetz aptly remarked, the empty concept of egoism was equated with the doctrine of acquisitiveness or the quest for pecuniary profit. "As a result, the profit motive could be understood without reference to its institutional origins and historical antecedents; it received its credentials from human nature and, like human nature, it was thought ineluctable, given—and therefore accepted." 2 And thus it was that the problem to be explained—certain forms of economic behavior—became the premise for other explanations. It—self-interest—became the nexus, the basic premise, the unquestioned assumption, of economic theorizing. From the institutionalists' view, the novel activities of one group of men at one time in history—the rising middle class at the time of the industrial revolution—became, in the hands of the orthodox economist, the accepted view of human nature. In the view of the institutionalists, however, this

2Girvetz, From Wealth to Welfarz, pp. 130-131.

3For a quite thorough and scholarly examination of the shift in the type of character dominant in western society from the time of industrialization to the present, see David Riesman, The Lonely Crowd—A Study of Changing American Character (New York: Doubleday & Company, 1950, originally published by Yale University Press in 1950).

Riesman traces the dominant character type in various societies from the tradition-directed, past-oriented, character type of the middle ages, to the emergence of the adventurous, individualistic, "inner-directed" entrepreneurial middle class which came to be dominant in the late eighteenth and nineteenth centuries, through the decline of this type and the rise of the thoroughly socialized, "other-directed" type of the middle twentieth century. He is primarily concerned, however, with the latter transition.

It is his thesis that the rapidly expanding, hustling, bustling, society of the commercial and industrial revolution opened new frontiers—both physical and economic—which called for and molded men who were ambitious, energetic, self-reliant; men who were engaged in transforming the social and economic frontiers of their day. These individ-
entrepreneurial middle class was but a manifestation of the social 

(Cont.) uals were "inner-directed" in the sense that the source of their direction, the goals, were implanted early in life by their elders, by society in general. Inner-direction was the principal mode of securing social conformity, though it was not a rigid behavioral conformity characteristic of the middle ages. Too many novel situations were presented for which a rigid, pre-defined code could not provide the answers. Thus, the problem of choice (solved in the earlier, static, tradition-oriented society by channeling behavior through a rigid social organization) is, in this period of rapid expansion and growth, solved by channeling behavior through a rigid though highly individualized character. The social environment required and perpetuated a personality with a great degree of flexibility in adapting to a rapidly changing environment. Such a society was "characterized by increased personal mobility, a rapid accumulation of capital (teamed with devastating technological shifts), and by an almost constant expansion: intensive expansion in exploration, colonization, and imperialism. The greater choices this society gives—and the greater initiatives it demands in order to cope with its novel problems—are handled by character types who manage to live socially without strict and self-evident tradition-direction (p. 29)." As people begin to pioneer on new and changing frontiers—the frontiers of production, of colonization, of exploration, and of intellectual discovery, the social mores no longer unequivocally dictate what one must do in order to conform. The task of production, for example, is "no longer left to an external group sanction...but is installed as a drive in the individual, and tremendous energies are unleashed toward the alteration of the material, social and intellectual environment and toward the alteration of the self (p. 61)." Personal, individual, initiative and ambition is the characteristic trait that emerges in this period of history—ambition which may take the form of "striving for fame or for goodness: to get the job, to win the battle, to build the bridge. Competition in the era depending on inner-direction is frequently ruthless, but at the same time, people are in no doubt as to their place in the race—and that there is a race. If they feel guilt, it is when they fail, not when they succeed (p. 125)." This inner-directed man comes to think of work or production in terms of non-human objects, "people are seen as something more than the sum of their workmanlike skills and qualities. Thus for the inner-directed man production is seen and experienced in terms of technological and intellectual processes rather than in terms of human cooperation. Human relations in industry, as well as relations among industries and between industry and society as a whole, seem to the inner-directed man to be managed by the anonymous cooperation brought about through the 'invisible hand'—Adam Smith's wonderful phrase for economic planning through the free market (p. 135)."

This, according to Riesman, is the dominant character type characteristic of western society at the time economic theorizing came to be formalized. And it is the type which the institutional economists insist has continued to dominate economic theory down to the present time. The novel, from any historical point of view, type of character extant at the time of Smith, Ricardo, and even down to about the time
forces, the institutions and technological development of a particular
time. And as these forces have changed, so have they changed human
nature.

(Cont.) of Marshall, was taken as universal. The basic traits of hu­
man nature were read into this particular type of person, rather than
recognizing that he was but a product of society at a particular stage
in its development.

And according to Riesman, it was a type of character which has in
time been replaced by another type—the "other directed personality." This is a character type also produced by social forces—but within a
different social matrix, a society which neither needs nor fosters
such independence, such zeal and aggressiveness. These characteristics
are no longer needed, they no longer assure success: "Increasingly,
other people are the problem, not the material environment (p. 33)." The other-directed person relies not upon tradition, nor upon his per­
sonal ambition, for his goals or his source of direction, but increas­
ingly, he relies upon other people. "This mode of keeping in touch
with others permits a close behavioral conformity, not through drill
in behavior itself, as in the tradition-directed character, but rather
through an exceptional sensitivity to the actions and wishes of others
(p. 38)." This other-directed person "seeks not fame, which represents
limited transcendence of a particular peer-group or a particular cul­
ture, but the respect and, more than the respect, the affection, of an
amorphous and shifting, though contemporary, jury of peers (p. 163)."
The need of the other-directed person for approval and direction from
others—for contemporaries rather than ancestors—differentiates him
from the earlier character types. The frontiers for this other-di­
rected person are other people. He is the result of increasing pres­sue
ward social competence and social acceptance, characterized in
Riesman's words as the shift from the invisible hand to the glad hand.
Thus, the expense account, Riesman points out, is as closely tied in
with today's business practices as was the bank account with the old;
it is the expense account which "gives the glad hand its grip (p. 161)."
The young person of today wants social security, not great achieve­
ments, approval not fame (p. 271).

Riesman's point is simply that the type of characteristic dominant
in any society is molded by that society and that the type character­
istic of society a hundred years or so ago, is gradually being replaced.
And while he does not directly touch on economics, the point in bring­
ing this rather long reference in here is that this is the same point
that the institutional economists have been arguing: that the histori­
cally temporary and novel type which was characteristic of society at
the time economic theory was being formulated came to be the accepted
view of human nature and that this interpretation is still the basis of
orthodox economics today. And thus, as noted above, the problem to be
explained—certain forms of economic behavior—came to be the basic,
unquestioned, premise for all other explanation, for all further eco­
nomic theorizing.
The institutionalists were considerably influenced in this way of thinking by such twentieth-century social-psychologists as Charles Horton Cooley who, in his Human Nature and the Social Order, first published in 1902, noted that

Most people not only think of individuals and society as more or less separate and antithetical, but they look upon the former as antecedent to the latter. That persons make society would be generally admitted as a matter of course; but that society makes persons would strike many as a startling notion....

Cooley, however, insists that the latter interpretation is necessary for a twentieth-century social science. He argues that the older individualistic approach, which considered the individual as the independent source of events, has been discredited. His writings were an emphasis upon the social nature of human activity and the importance of collective action in control of individual action (thus anticipating much of Commons' later work). He criticized those individualistically-oriented approaches to social problems, specifically the "wide-spread disposition among psychologists, psychoanalysts, biologists, economists, writers on education and others" who attempted to "avoid history or sociology, to short-circuit their current of causation," who were unwilling to follow through "those intricate convolutions of social process" which molded and shaped human behavior. Such attempts, said Cooley, were "the postulate of an individualistic psychology in search of some special motive to explain collective behavior. If you regard human na-

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ture as primarily social you need no such special motive.\textsuperscript{5}

The institutionalists, along with Cooley, hold that human behavior is primarily socially determined, that, in Commons' view, the economist must therefore take the customs of the social group as primary, and individual behavior as derivative. Commons noted that formerly economic science took social customs

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as a presupposition which it did not necessarily investigate. But the methodology of recent economic science requires us to look further—indeed to set up an ideal type, or formula, of a social pressure which compels individuals to conform, in variable degrees of conformity, and which can itself be investigated in its own right, over and above the presupposition of habit. ... Here it becomes the function of methodology to formulate a definition of custom, not on the psychological and individualistic basis of Habit, but upon the social pressure that compels uniformity of action by all individuals within the jurisdiction.\textsuperscript{6}

Individuals, Commons added, "must adjust themselves to" these social customs "simply because it has become habitual and not because it is logical, rational, or intelligent." And this emphasis upon society as a molder of individual behavior is, in Commons' view, quite distinct from the nineteenth century view that society was but a "myth," that it in fact had "no actual existence because only individuals lived and existed."\textsuperscript{7}

Since these earlier writers regarded individuals as primary and society as derivative—and artificial—, they, in Commons' view,

identified the sovereignty of the citizen as one of the natural rights of men. ... The actual state, with its actual officials, seemed to be unnatural,

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\textsuperscript{5}Cooley, Human Nature and the Social Order, pp. 28, 29.\\
\textsuperscript{6}Commons, Institutional Economics, p. 740.\\
\textsuperscript{7}Commons, The Economics of Collective Action, p. 110.
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a merely coercive power interfering with and over­
riding the natural liberty of man to use his facul­
ties as he pleased, rather than the collective
power by which man's will is made effective.  
This last phrase is typical of Commons' point of view on one impor­
ant function of society, of collective action in general—it is only
through collective action, whether it be the state, the trade union,
the cooperative, or the corporation, that man's will is made effec­
tive. A separate individual is an abstraction which has no meaning in
a society for it is only through collective action that individual
freedom and individual achievement is realized.

While individual behavior is defined and determined by social
pressure, social mores or institutions, man can, through collective
action, influence this molding process. Theirs is not a narrow deter­
ministic view of history or of human behavior. And it was in this con­
nection that Commons introduced his idea of the artificial versus the
natural selection of social customs and institutions. The evolution
of these economic phenomena are "like that of a steam engine or a breed
of cattle, rather than that of a continent, monkey or tiger." It is
his thesis that social institutions have evolved through artificial, or
purposeful, selection—the selection of those which were desirable and
the rejection of those which were not. This view according to Commons
differs significantly from that held by the earlier economists who "en­
deavored to get rid of the human will and to explain economic phenomena
in terms of physical or hedonic forces, ... as the working out of nat­
ural forces, either foreordained or blind. It was the concept of society
as the natural growth of a mechanistic equilibrium."  

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8 Commons, John R., The Legal Foundations of Capitalism (New York:

9 Commons, Legal Foundations, p. 376.
this, Commons holds that society is an evolutionary product of purposeful, rather than purposeless, selection, because it involves "Purpose, Futurity, Planning, injected into and greatly controlling the struggle for life."\(^10\) His is a "theory of social progress by means of personality controlled, liberated, and expanded by collective action."\(^11\) It is not a blind, mechanistic, unfolding of man's inherent nature in which the emphasis is upon mankind as individuals and in which society is but a "myth" because it is merely a collection of those disparate individuals and their individually calculated actions. It was thus that Commons emphasized the importance of viewing society and the complex of social institutions and customs as a "going concern." It is a continuously evolving process rather than a set of rules laid down for the eternal guidance of man, or a permanent and fixed social order consciously brought into existence by man or his tribal ancestors. And thus Ayres argued that there is nothing more evident to the social scientist who investigates the subject than the fact that the institutions of society were not consciously enacted. The widely held supposition, especially in times past, that institutions were set up for the proper guidance of mankind is but a myth. While some philosophers such as Hobbes and Rousseau have tried to explain their origin as the work of reasonable, calculating men who had come to see life in an unorganized state as unsatisfactory and therefore tried to "institute" something better, such explanations as to the origin of civilization's rules of behavior, are "just as mythical as the tribal legends their effort sought to replace."\(^12\) As Cooley noted in

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\(^{10}\) Commons, *Institutional Economics*, p. 636.

\(^{11}\) Ibid., p. 874.

\(^{12}\) Ayres, *The Industrial Economy*, p. 44.
his influential book, if we are to go back to that time in history when the state of our remote ancestors was such that we are not willing to call it social, when we are not willing to use the term society, "then it must have been equally undeserving to be described as individual or personal; that is to say, they must have been just as inferior to us when viewed separately as when viewed collectively." The point is, of course, that society and mankind have emerged together; it is society, it is the collective action in control, liberation and expansion of individual action, which differentiates man from earlier Mammalian ancestors. It is the view of these economists that this social process has evolved through what Commons calls purposeful selection and that today we must turn our social, our collective, intelligence to controlling that process through collective action.

If, then, human nature is a reflection of the economic system and its multitudinous institutional patterns, then the focal point of economic analysis has shifted. It is from this shift that Tugwell insists "there arose a notion of industry as one social mode of functioning, to be devoted henceforth to new ideals." From this point of view, Tugwell argues that it is no longer of supreme importance whether some individual enterprises are "protected in their rights"; what is more important is "the efficiency with which the organization fulfilled its social function." That is to say, the institutions of capitalism—private enterprise, the profit motive, private property, etc.,—are not the necessary institutional arrangements compatible with human nature, and which are therefore to be carefully defended. They are, rather to be strengthened

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13 Cooley, op. cit., p. 45.

or abandoned depending upon their social effects. Human nature is compatible with a wide variety of institutional arrangements, many of which have yet to be explored. And this exploration is one of the primary functions of the economist.

It is therefore the social or cultural level of analysis which the institutionalists deem important for a social science; and at that level of investigation, the individual is irrelevant. Social patterns cannot be explained in terms of the behavior of individual men--though this of course does not deny the importance of individuals. It is merely an insistence that considered as such they are irrelevant for economic analysis. Ayres uses the analogy of the individual cell to a living organism to illustrate this point, noting that while every function of the organism is of course performed by a multitude of individual cells, without the action of which the organism could not survive, nevertheless, in the analysis of the functioning of the organism, the individual cell is irrelevant. The individual cell is simply another level of analysis or understanding which does not shed light upon the behavior of the living organism.\(^{15}\) It is of course true, agrees Ayres, that all human activities are carried out by individual men. And at this level of analysis, the level on which ordinary daily affairs are conducted, such activities are important, and the question of "Who has acted how, and why?" is significant and important for some purposes. But the functions and forces of society do not "act" as men act; these functions and forces are, however, the domain of the social sciences. In this analysis of social causes and effects, of social forces, the individual acts of in-

individual men are not at issue. All this is obvious today, says Ayres, and would have been recognized long ago but for the "persistent belief in the metaphysical ultimacy of human individuality which has prevented our viewing men as we view cells and molecules."16

It was the traditional view of society as a population of atoms, to use Commons' apt expression,17 against which the institutionalists are "revolting."

Instead of isolated individuals in a state of nature they are always participants in transactions, members of a going concern in which they come and go, citizens of an institution that lived before them and will live after them.18

Instead of centering upon "an individualistic human atom," the modern social sciences must "investigate the working rules" by which collective action is transmitted.19 It must not be assumed, however, that these working rules are something "external" to, something "existing apart from actual behavior."20 Rather they manifest themselves in actual behavior; they are the forces which control and give direction to human behavior. It is these working rules, these institutions, which make economics a social science; and it is this which makes human behavior, social behavior, or human nature, social nature.

An institutional economist, as Clark once pointed out, regards human nature itself as but another "social institution." Furthermore,
all these social institutions "have their own continuity and life processes distinct from, though not independent of, those of the individual human beings" who participate in and are influenced by them. 21

The human behavior which is of interest to the economist is thus seen to be a function of society—not an antecedent to society. It is a product of the breeding, the education, the training inculcated in the individual by society, by the proceeding generations. And according to Mitchell, any social scientist who "does not emphasize" that fact, thus "misses the most potent single factor in social psychology." 22 He misses this most important single factor to the economist, for in the view of the institutionalists, economics is concerned with the total social economy and its development—and the possibilities of improving it. And if human nature is a function of the social structure, then it is worse than useless to try to find an explanation, to try to find answers to those questions, by procedures which begin with a contrary assumption. This is why the institutionalists have concerned themselves with social institutions, with ceremonial patterns of behavior, with collective action, with workmanship or technology. This concern lies in the conviction that economic development, and the answer as to how to improve and facilitate that development, "can be explained only in terms of social forces and not in terms of 'human' wants or 'natural' scarcity—both of which are of course defined by prevailing institutions and the state of the industrial arts." 23

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What is at issue here is simply a re-evaluation of the basic assumptions concerning what is meant by human nature. Orthodox economics has been criticized from many sides for its "unrealistic" account of human nature—its narrow conception of the calculating, rational, economic man, for example. This led many, both orthodox economists and their critics, to suppose that what was needed was a more "realistic" account of these same traits, motives, propensities, instincts, etc., by which individuals are really moved. Veblen, for example, was partially inclined in this direction. While he vigorously demurred from the orthodox treatment of motives, he nevertheless sought to find the explanation of human behavior in terms of the instincts of individual men. And while he did emphasize the importance of institutions (ceremonial behavior) and the importance of technology ("the cultural incidence of the machine process") in shaping the specific manifestations of those instincts, it has been only recently that the institutionalists have abandoned this individualistic orientation bequeathed by traditional views. They have come to emphasize that theirs is not a science of individual behavior at all; that what is not needed is a better or more realistic account of how individual men behave. Instead of investigating the individual human atom, and thereby hoping to understand how a popu-

24 Thus, for example, his famous characterization of the economic man: "... a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-impose in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire, as before." ("Why Is Economics Not an Evolutionary Science," reprinted in The Portable Veblen, pp. 232-233.)
lation of molecules performs, they have shifted the focus of attention to the total society, to the cultural level of analysis. And at this level of understanding and investigation, the individual cell or atom per se is irrelevant. They are interested in social patterns and these patterns, they argue, do not stem from the individual acts of men who are what they are by nature. 25

John Dewey, who was responsible for much of this way of thinking, noted that the basic fallacy in the individualistic approach is its belief that individuals alone are real, that classes, organizations, institutions, society in general, are secondary and derived. They are artificial; only individuals are natural or real. The fallacy in this way of thinking, according to Dewey, is that the individual is thus regarded as something "given," something to be catered to by society. But, says Dewey, "social arrangements, laws, institutions, ... are not means for obtaining something for individuals, not even happiness. They are means of creating individuals." 26 And for an approach to economics which is primarily interested in planning, in improving the functioning of the total social economy, this recognition is vitally important in the opinion of the institutional economists. It is important to separate out the dynamic from the passive elements in the social organization;
it is necessary to recognize and to take into account the role of institutions of society and the role played by the individual within that institutional matrix, if we are to have any standard of judgment, any starting point, for a comprehensive understanding of the economic system and the possibility of its improvement. Thus J. M. Clark argued that the body of doctrine enclosed in orthodox economics can furnish no measure of the social efficiency with which to judge the system, or to judge different industrial systems. The individual, says Clark,

... can make nothing out of the world that the world does not first make out of him; he cannot even desire of the world save as it has taught him to desire. He is limited by the range of stimuli that have come within his experience. He is at the mercy of whatever system he happens to be born into for creating, transmitting, and directing stimuli.\(^7\)

Thus, what profits it to know, asks Clark, that an individual may manage his income perfectly, when it is only as perfectly as his environment permits. "What answer is this to one who is asking whether the present industrial environment tends to promote a more economic management of men's incomes, in general, than any other possible environment would promote?"\(^8\) This is strangely lacking in conclusiveness, according to Clark, for if we are trying to pass judgment on the existing system as a whole, or on any part of it, merely

to demonstrate that our productive powers are organized into a system of maximum efficiency, if price be taken as the measure of efficiency, and that prices are actually in proportion to the marginal importance of the various products to the consumer, this marginal importance being in turn determined for good or ill by the environment which the competitive system itself plays so large a part in molding.\(^9\)


\(^8\) Ibid., p. 106.

\(^9\) Ibid.
This careful balancing of utilities, upon which the orthodox system depends so largely (even if it could actually be achieved), may be very efficient or very inefficient depending upon whether the conditioning social environment is a favorable or an unfavorable one. Thus, we cannot assume that the individual acts of men, who are so strongly influenced by their institutional environment, will lead to the highest possible degree of economic efficiency.

Clark therefore concludes with the other institutionalists that we must abandon the individualistically oriented economic theory which has prevailed for so long. It was based on a false assumption, or assumptions: that the institutions and social mores of the community were but a manifestation of some original, basic, human nature, and further, that the individual is a free agent, able to make those decisions which will lead to the form of social and economic organization most compatible with that basic nature.

When Marshall was at work on his Principles of Economics, "the age seemed an age of self-reliant foresight beyond other ages," and in Clark's opinion, this is the central idea running through the whole of nineteenth century thinking. However, in Clark's view, "the twentieth century is an age which, beyond other ages, is aware how much man is molded by his environment, and is deliberately undertaking to control this molding process." This fact, moreover, "must be a dominant note"
in any constructive contribution to economic theory today, for we are coming to realize that "to the individual many doors are closed which open to the collective power of society." And thus, economic theory must, in the view of these economists, recognize this shift. It must turn its attention to this collective power which is gradually taking over the role of the individual as society is more and more undertaking to control the molding process of the institutional environment.

**The Individual and Collective Action**

Among the basic premises of the institutionalists is that men are mutually dependent upon one another, that they must cooperate in their social and economic endeavors, and that collective action is, therefore, the fundamental method not only of solving social-economic problems, but of achieving freedom for the individual. Collective action is increasingly essential to modern economic life. With a more modern understanding of human nature as being a derivative of social forces and institutions, these economists have come to argue, as Mitchell summarized Commons' basic thesis, that "social cooperation rests not upon a divinely appointed or a 'natural' harmony of interests, but upon a state of order that men learn to establish among themselves." Industrial society is shifting from a system of status buttressed by immemorial tradition to

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32 Ibid., p. 141.

a socially organized endeavor for getting things done, for opening through collective action the many doors that are closed to the individual. And this is why the institutionalists see collective action as more than mere control of individuals; it is also, and more importantly, the "liberation of individual action from coercion, duress, discrimination, or unfair competition ... it is the expansion of the will of the individual far beyond what he can do by his own puny acts."34

Modern business and industry, social activity in general, are becoming increasingly collective; we are in the midst of a social revolution involving a shift from the individual to the social point of view in which interdependence is becoming more intimate and more intricate. And under such conditions, the traditional reliance upon individualism and self-interest is no longer applicable, is, in fact, no longer meaningful. To meet the wider aims of society, we must adopt, both in theory and in practice, a socially-oriented point of view for it is only through this wider view, through collective action, that there is any "chance of substitution of social for individual interest."35 Economics has for too long, in Clark's view, made the mistake of assuming that social efficiency is merely the sum of all individual efficiencies,36 but in Clark's opinion, the two are radically different concepts and economics must be on its guard not to reason from that supposition.37 Clark

34Commons, Institutional Economics, p. 73.
pointed out that the concept of free competition and of the market mechanism as directed by the sovereign consumer are based upon exactly that supposition; and that they further rely upon the idea that all individuals are equally competent to take care of themselves, that they are the best judge of their own individual interests. This Clark denies and argues therefore that this means social problems can be solved only by social or collective action, that society must intervene to assist and liberate the individual.\textsuperscript{38} It was from this point of view that Clark said:

The growth of scientific knowledge of mental and physical health and disease is working a revolution in this matter, undermining the idea that each individual is the best judge of his own desires. ...the social costs of industry in disease and accident may be recorded and studied quite objectively in a way far more useful as a guide to public action than is the a priori doctrine of equality between marginal disutility and marginal reward.\textsuperscript{39}

In their basic physical needs, men are much alike ... and the conventional economic view that we know nothing about the relative importance of things to different people is clearly the least probable hypothesis one might adopt, and an unwarranted limitation of perspective.\textsuperscript{40}

In this, Clark is taking a quite different position from the orthodox economist who is willing to assume this limitation of perspective. That is because in the traditional view, the focus of attention is upon individuals and their individual behavior. Society, collective government, are all interferences with the proper functioning of the market mechanism--with the few exceptions where they are directed to

\textsuperscript{38} Clark, Social Control of Business, pp. 48, 161ff, 199; "Economics and Modern Psychology," p. 141.


\textsuperscript{40} Clark, Alternative to Serfdom, p. 51.
assist the market (the coordinating nexus of the individual actions of individual men) to function more efficiently, more smoothly and more competitively. To Clark and the other institutionalists, however, it is mandatory that economic theory must divorce itself from its individualistic bias and adopt the social point of view if it is to contribute to social and economic welfare in the twentieth century because

... the quest for welfare evidently involves far more difficulties than can ever be surmounted by the mere calculating faculty of the individual. In proportion as scientific research progresses, minimum standards of welfare will become more and more matters of social knowledge and less and less matters of individual taste.41

If we are to achieve the social welfare for which Clark and the other institutionalists seek, then increasing reliance will have to be placed upon social or collective action, and less upon the calculating faculties of the individual who is pursuing his own self-interests. Orthodox economic theory, as Commons argued, was based upon the premise that individual action in the pursuit of self-interest is the wellspring of all economic activity. And as Commons elaborated, it could not be otherwise if all collective action is eliminated in economic affairs. For

if collective action is abolished, then the theorist must find in the individual breast a set of instincts that keep society going. These instincts must be placed there by some external power that intended the welfare of mankind. This external power was God. Only three instincts were necessary ... sympathy, truck and barter, and the sense of propriety. These take the place of all collective action in economic affairs.42

The institutionalists are arguing, however, that this is no longer mean-

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42Commons, Institutional Economics, p. 166.
ingful; that in the day of increasing collective activity, it is only through that collective activity that welfare and freedom for the individual are achieved.

According to the institutionalists, man's nature is a social product; it is impossible for man to achieve his potential development except as a part of a social organization. And in their view, economics is therefore concerned, not with the individual and his desires or disutilities as an individual, but with how those desires can be realized and those disutilities and frustrations overcome as a part of a social or collective organization. It is thus that these economists look not to a social organization which is but the sum of many disparate individuals, but to that social organization itself, for they look to collective action rather than to individual action to achieve liberty, freedom, and security for the whole of society. They assert that man is basically a cooperative and social, not a competitive animal.43 They argue that it was only for one brief moment in history that man's competitive tendencies were brought into dominance, and that by the close of the nineteenth century, the more mature industrial economy emphasized man's tendency to cooperate, to act in unison, to meet individual and social needs through collective action. Increasingly, modern man is recognizing that in today's economy a premium is placed upon collective action.

Commons, in particular, has not been content to confine his analysis to the factors governing the maximum profit position of an individual firm or the maximum satisfaction position of an individual person; rather he has tried to show the general nature of the structure of opportuni-

43Cf., for example, Ayres, Industrial Economy, p. 322 and Gruchy, Modern Economic Thought, pp. 563-564.
ties available—these opportunities being a function of the social organization, and which are expanded and liberated by collective action. And it is multi-lateral collective action, to which Commons is referring, not the mere exercise of power by one-sided collective action (monopoly); it is what he calls "collective democracy" in order to distinguish it from the "individualistic democracy of Adam Smith," or the one-sided collective action of the "dictatorships of Europe and Asia." In Commons' view, it is only through this process of collective organization and action that the whole is made greater than the sum of its parts, for through such a process, the "personality of each organized individual is higher and more capable than the personality of the unorganized individuals." Collective or social action is "literally the means to liberty." And if economics is to contribute to an understanding of the problems and pressures of the twentieth century, it must adopt this orientation, for a recognition that it is indeed collective action which gives the economist the "mental tool of investigation" which will bring together the similarities and differences in the complex of modern economic activities.

44 Cf. his Institutional Economics, p. 311ff.

45 Commons, Economics of Collective Action, pp. 24-25. Cf. also chap. 1, ibid., for his many illustrations of the importance of collective action as a means of achieving opportunity, freedom and liberty for the individual in the complex social organization of the twentieth century; they range from the small local union negotiating for its members, through the collective negotiation of 67 railways corporations and 5 railway brotherhoods, the activities of the Federal Industrial Relations Commission, to lobbying in Washington, D. C., and the American Association of University Professors.

46 Commons, Economics of Collective Action, p. 152.

47 Ibid., p. 35.

48 Ibid., p. 34.
J. M. Clark, in the same vein, emphasized the point that the function of organization and association is to increase the liberty of the individual; that without such cooperative endeavor, the individual is helpless, in fact is hardly deserving of being thought of as a human being. As we noted earlier, Clark was particularly influenced on this point by Cooley and he refers to him specifically when he noted that, while in a simple economy, individualistic self-interest is one "possible" organizing principle, it is not possible in the highly organized industrial economy of today—except at the cost of chaos. Our social salvation, says Clark, lies in the reworking of the relations between the various groups and associations of which every individual is a member of many. In fact, we may be at a stage of social development to which some form of social contract "may for the first time, be applicable on the scale of a 'great society.'" Not for the task of organizing de novo a primordial society, as the earlier and more naive theories hypothesized, but for tying together these groups and organizations which are the necessary nexus of a harmonious and workable social group. As we have in the past given lavishly of our energy to conquer the physical frontier, so we today must redirect that energy: "the frontier of today is in the field of neglected social adjustments."  

Cooley, to whom Clark dedicated one of his books, was, as we noted earlier, one of the earlier social philosophers to emphasize social organization and collective action as the necessary means to the growth and development of freedom for the individual. "Freedom," said Cooley, "can exist only in and through a social order, and must be increased by all

49 See in particular his Alternative to Serfdom, pp. 4, 5, 6, 8, 15, and 125.

50 Clark, Alternative to Serfdom, pp. 4-8.
the healthy growth of the latter."51 Freedom is not merely a negative thing, the absence of constraint. It is a social goal to be achieved, the existence of socially defined opportunities always to be enlarged. Social institutions have no other function than to contribute to human freedom and development. And since this is true, it is necessary to re-evaluate our traditional, institutionalized, egocentric concepts of the individual and his relations to society. Collective or social action is deemed necessary to correct the workings of those social institutions which no longer contribute to the healthy growth of the society and its individual members. And this is why freedom, in any meaningful sense of the word, is an evolving social concept—to be extended and corrected by each generation. Thus, for example,

so far as children are ill-nurtured or ill-taught, as family training is bad, the schools inefficient, the local government ill-administered, public libraries lacking, or private associations for various sorts of culture deficient, in so far the people are unfree.52

There is, then, no antagonism between the individual and society except insofar as society, or, specifically, the institutions of that society, prohibit the intellectual, physical, or economic development of the individual members. Individuals who, it should be emphasized, are viewed, not as atoms, but as participants of a "going concern." J. M. Clark was conspicuously influenced by Cooley when he argued that "liberty ... is limited just as surely by ill-health or poverty as by actual servitude." In fact, Clark argued, any meaningful concept of liberty would certainly include

... a certain minimum of economic welfare on which everyone can fall back, in order to prevent him from

52Cooley, op. cit., pp. 430-431.
This minimum of economic welfare, this alleviation of ill-health and poverty, all of which are hindrances to the realization of liberty for the individual, cannot be realized by relying upon the eighteenth century concept of the individual as a free agent, following only his own self-interest, prodded only by the hope of pecuniary reward or the fear of the gaol. The twentieth century is the age of collective action and the crux of the problem, in the view of the institutional economists, is how we can both understand and then control these collective pressures and activities for economic and social improvement.

It is the basic belief of these economists, based upon the premises we have examined in this and the previous chapter, that man needs neither the pricking fears of insecurity, nor the expectation of monetary reward to induce constructive endeavor. Quite to the contrary, the freedom from want and fear envisaged by these economists, would, in their view, provide an environment in which man's creative endeavor would find outlet far surpassing anything that has stirred even the imagination of times past. This new social venture would accomplish wonders that would indeed dwarf even the "Egyptian pyramids, Roman aqueducts, and Gothic cathedrals." As Ayres summarized it, the direct consequence of the increasing social abundance of today's industrial economy is that "skill, initiative, and responsibility are more widely diffused than ever before."

The dullness, the stolidity and lethargy characteristic of the underlying population of a few generations back was not due to a natural indolence, was not a manifestation of man's inherent passivity; it was a consequence of a dietary deficiency and hookworm, of the almost perpetual

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53 Clark, Social Control of Business, pp. 162, 92.
infestation with vermin. This is the importance of recognizing why social or collective action is today necessary, this is why Ayres holds that "abundance is indissociable from that 'maximum realization of individual potentialities' in terms of which many philosophers define civilization itself."54

**The Role of Government**

This minimum economic welfare, however, is a social problem which can be met and solved only through social or collective action. The individual today stands helpless before the myriad powers and forces of the complex industrial economy; helpless, but not completely so. Although the great masses of mankind once resigned themselves to a life of tiresome toil, they have since made the exciting discovery that they are not the pawns of fate. They can in fact shape their own destiny. They have come to recognize that social want, poverty, deprivation, are institutional, not technological; and institutions have no other function than to contribute to human freedom and development. This means, and twentieth century America has come increasingly to realize the implications of it, that the institutional fabric by which we have governed our society needs a close re-evaluation in light of the potentialities of today's industrial system. And increasingly, we have turned to collective action to provide both the needed institutional re-evaluation, and to provide the minimum of economic welfare for which the institutional economists have been arguing. This has meant, of course, that the role of government has changed quite markedly from the duties and responsibilities it assumed only yesterday. And though we have not yet

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provided this minimum of economic welfare necessary to the "life, liberty and pursuit of happiness" for each individual, we have come to recognize that the government is one of the forms of collective action which we can use to solve many of our modern social and economic problems.

Commons once noted that the earlier economists assumed a laissez-faire point of view in their outlook toward government. They thought it necessarily "repressive and obnoxious." The institutional economists, on the other hand, "investigate how government acts to lead people into a supposedly better economic administration." It has taken a long time, but the institutionalists are coming to recognize that the eighteenth century concept of government bequeathed to us by Tom Paine and Tom Jefferson, was in fact that of George III; was indeed, a shortsighted, tyrannical, body from whose grasp one did try to escape; it was repressive and obnoxious and they were quite correctly suspicious of it for it was one-sided collective action. They referred to government in the third person—as an "it"; they specified certain grievances against "him" in the Declaration of Independence. With the growth of democratic society, however, governments have increasingly become the inevitable agency through which the people must and do act. It is our agency for collective or social action. And this is what Mitchell meant when he noted that with an expanding economy, as the "interdependence of individuals becomes more intimate and intricate," and the "wider geographic scope of economic organization exposes the modern man to more

55 Commons, Economics of Collective Action, p. 105.

and more hazards that he cannot control, ... he calls stridently upon his government for aid." Thus the government, the one great agency for collective action, inevitably finds its "functions multiplying." Likewise Commons, emphasizing the same idea, said that in our modern society,

Governments must have revenues in increasing amounts, not because they are corrupt and inefficient, which can be remedied, but because the social needs of education, ethics, morality, art, equality, liberty, protection of the weak, highways, health, recreation, grow faster in an improving civilization than do the private needs of food, luxury, ostentation.®®

An improving, expanding, civilization finds it both more efficient and more economical to supply an increasing number of its needs, to satisfy an increasing number of its desires, through collective action.

J. M. Clark, who has long been concerned with the role of government in the modern economy, pointed out that whereas in times past it was "accustomed and adapted to restraining incidental abuses without fear of unduly weakening the main forces at work, now faces the very different task of strengthening those main forces." Instead of operating from the premise that the main forces making for progress and development of the economy were external to government, and might indeed be weakened if the government were to interfere, rather than confine itself to the redress of grievances and not to the guidance of economic development— the government has now taken the task of ensuring that those main forces are continuously at work. Thus, for example, the government is "rapidly acquiring the task of umpiring the distribution

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67 Mitchell, "Intelligence and the Guidance of Economic Evolution," The Backward Art of Spending Money, p. 119.

68 Commons, Institutional Economics, p. 831.
of the nation's product between farmers, laborers, and various business groups. Here, "the government is grappling, not with incidental abuses, but with the central features of the economic system." Clark noted that the striving toward more equal distribution of incomes, which has long figured as a humanitarian aspiration, may indeed come to be viewed as an "immediate necessity for the continued full operation of industry." The evils of unemployment, the social costs of industry in no way compensated by the price system, the ever-present problem of stagnation, all inevitably mean that we must turn to collective action to solve those problems with which the individual, or all individuals acting singly, are helpless to cope. This means, and we should recognize in full the importance of the shift that has taken place in industry and the relation of government to industry, that "public functions will inevitably increase"; it means quite simply, says Clark, that we will inevitably have to turn to "collective planning and direction" if our industrial economy is to achieve the potential of which it is capable.

The Individual Versus the Social Point of View in Economics

The institutional economists see individual human beings in the twentieth century as a part of a vast collectively organized economy; individual activity is no longer of the ruggedly-individualistic, self-centered, type that was envisaged by the eighteenth and nineteenth century writers. Human nature has become thoroughly socialized. This, says


Commons, is the philosophical meaning of "holism" as applied to economic thinking; it is looking at "economic society, not as did the early economists as a census of population, but as a hierarchy of organized managerial, bargaining, and rationing transactions from the family of a hundred sovereignties." The earlier economists viewed man as being naturally free, subject only to the coercion of the political state. The institutionalists, and Commons in particular, are arguing that this is an extremely limited and naive understanding of the relationship between the individual and the many forms of collective pressures to which the individual must adjust. Commons often refers to a hierarchy of governments, economic and moral, as well as political, which enforce this socialized behavior through the use of sanctions or power, inducement or pressure, "ranging from mere friendly advice to the fear of loss of livelihood, fear of violence, or imprisonment, or even death," to enforce upon the individual some particular performance, forbearance, or avoidance. Viewed in this light, each kind of collective action, whether it be the power of the state, the trade union, the corporation, or public opinion, is a form of government, differing only in the kind of sanction or pressure used to enforce this conformity to which the individual must adjust "regardless of logic, reason, or self-interest."  

Orthodox theory is, in all its myriad formulations, but an extension of a single underlying assumption—that of the pursuit of self-interest by the individual. It attempts to find the meaning and understanding of the modern economy in the actions of these separate individuals, each pursuing his own individual goals, subject only to the

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61 Commons, Economics of Collective Action, p. 135.
62 Commons, Economics of Collective Action, pp. 40, 74-75, and 111.
interference of the political state. The modern economy, however, is not characterized by such activity; it is rather, characterized by vast collective organizations to which the individualistic principles of the orthodox economists do not apply. Thus Clark pointed out that some interests of some individuals are indeed expressed through what may be called free contract between individuals, but many other interests are expressed through various forms of collective action such as representative government, both industrial and political, and some are of course expressed by no recognized machinery at all which thus "leaves some interests without adequate means of expression and protection."

This evolution from what was previously considered to be the cornerstone of our economy--free contract between free individuals--to the increasing use of collective action for meeting both social and individual problems is, in Clark's opinion, one of the very vital changes that has taken place in the twentieth century. And orthodox economics, rooted in the eighteenth century concepts of the individual and society, simply has no means of understanding or coping with the collective nature of the modern economy.63

This eighteenth century concept of the individual and society is responsible for what Ayres calls the "mental atomism"64 of orthodox price theory, and it is this bias which destroys its usefulness as a tool of understanding and analysis in the twentieth century. Economic theory inherited from the general philosophical environment of the eighteenth century the idea of a natural equilibrium of forces which

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result in a stable social order among men. These forces are the inherent qualities of human nature as revealed in the acts of the individual: wants and satisfactions, perceptions of plain and pleasure, and man's passive nature.

These natural forces, according to Ayres, are assumed by the orthodox economist to be registered in the price system; and the price system, therefore, is the vehicle through which a stable social order is realized.

Orthodox economic theory is therefore limited in its usefulness because it attempts to explain the economic patterns and movements of society as the consequence of the individual acts of individual men. But human beings and all of their activities which are of concern to the economist (who is perforce interested in understanding and explaining the total economy) are social phenomena. These social patterns, which are of concern to the economist, are not the logical consequents of the individual acts of individual human beings. Quite to the contrary, human beings and all of their activities which are of interest to the economist are the logical consequents of social pressures or forces, and any attempt to begin with contrary assumptions will throw little light upon today's socio-economic problems. This is the main criticism which Ayres directs at the orthodox approach via price theory, for price patterns can be conceived as revealing the character of the economic system only if they are "regarded as the consequence of a human nature which is antecedent to all social patterns."  

From the outset, orthodox economics has assumed a permanent social order composed of landlord, laborer and capitalist and has concentrated upon price movements.

65 See Commons, p. 227, above.
within that fixed social structure—price movements which were assumed
to be a reflection of the inherent qualities of human nature as ex-
pressed in demand. And thus price theory is used to explain that which
is already taken for granted: a market economy composed of permanent
social and economic classes in which individuals manifest, via price,
the basic proclivities of human nature.68

There are, according to the institutionalists, however, no inher-
ent qualities of human nature of which the social order is but a mani-
festation. And it is for this reason that Ayres rejects the use of
price theory as an explanation of the social economy. This does not,
however, mean abandoning the use of price data, any more than it means
abandoning the use of census data:

We do not consider census data useless because nobody
thinks of it as containing a theory of the economy;
and there is nothing in the social conception of human
nature that would invalidate the statistical treatment
of price data.69

But we must abandon price theory as the explanation of the forces shap-
ing the social economy of today because we must abandon the idea that
society is merely the result of a multitude of individuals each pursu-
ing his own self-interest. This means that we must also abandon the
importance previously assigned to motivation and particularly that of
the entrepreneur and the profit motive as the main spring of economic
progress. We must instead concentrate upon the social forces which
shape and determine the course of development of the total economic
system.

68 Cf. David Hamilton, Newtonian Classicism and Darwinian Institu-
tionalism, especially chap. IV for a more thorough elaboration of this
point.

Ayres, "The Co-ordinates of Institutionalism," AER, May, 1951,
p. 50.
These social forces the institutional economists generally sum up under the headings of institutions (habits of thought, mores, collective action...) and technology (the state of the industrial arts, the scientific know-how of the community). They were defined by Veblen as

... of the nature of a common stock, held and carried forward collectively by the community, which is in this relation to be conceived as a going concern. The state of the industrial arts if a fact of group life, not of individual or private initiative or innovation. It is an affair of collectivity, not a creative achievement of individuals working self-sufficiently in severality or in isolation.70

In neither of these social forces is importance assigned to the individual nor to the problem of motivating him into activity.

Instead of taking the existing institutional setting as given and relying upon the entrepreneur, motivated by profits, to carry the system forward, the economist himself must adopt an experimental attitude toward these social forces, in particular, the use of collective action to solve socio-economic problems. According to Tugwell, "economic theory, strictly defined, is the actual formulation of those suggestions for change, these solutions of problems."71 (This may be of little use in solving the economic problems of the individual, such as how to stretch the monthly income to meet all expenses, but then this is not the concern of the economist.) As Tugwell sees it, an increasing part of economics "consists of this formulation and trying out of reconstructive programs"; this necessarily involves different attitudes and a different approach to the science on behalf of the economist for it involves "suggestions for new forms of institutional structure and new forms of conduct" by

70Veblen, The Instinct of Workmanship, p. 103.

the economist rather than the passive acceptance of the given institutional fabric of society.\textsuperscript{72} This means that the economist must look upon "institutions and arrangements in industrial life ... as instrumental."\textsuperscript{73} As Clark also agreed, "we cannot be satisfied to take institutions for granted as if they were supreme ends in themselves."\textsuperscript{74} Instead, we must "regard even the more fundamental institutions as means to social ends," and nothing can further this recognition more than to emphasize the "gains and costs to society for which such institutions are responsible."\textsuperscript{75} We are indeed more comfortable, Tugwell adds, if we simply attach ourselves to the existing institutional environment and identify ourselves with it.

In a primitive, static society there was a survival value in this. In our own rapidly changing society the survival value has shifted. Society itself can survive only if it submits its arrangements to constant revision.

This is among the most important lessons that economists must learn— that the social or institutional arrangements are temporary, are experimental; and that in the rapidly changing economy of the twentieth century a "hardening of institutions ... is positively dangerous."\textsuperscript{76}

Thus the institutional economist centers his thinking and investigations around institutions, social arrangements, and collective action. Commons, it will be recalled, defines an institution as "collective action in control, liberation, and expansion of individual action," and

\textsuperscript{72}Tugwell, American Economic Life, p. 594; cf. also, Tugwell, Our Economic Life and Its Problems, p. 542.

\textsuperscript{73}Clark, "A Concept of Value—a rejoinder," QJE, August, 1915, p. 722.

\textsuperscript{74}Ibid., p. 723.

\textsuperscript{75}Tugwell, American Economic Life, p. 595.
emphasizes that this is the "general and dominating fact of social life." Rather than confine their theories and analyses to the movements of prices within the given institutional setting, they look upon that institutional setting as a temporary social arrangement to meet certain social-economic problems. They look upon social-economic change and development, not as natural phenomena, nor as the product of individual entrepreneurs seeking to maximize profits, but as an evolutionary social process subject to purposeful control. Thus, according to Commons, institutional economics belongs to this field of purposeful evolution because it is concerned with the "evolution of control of individuals by collective action," because "it deals with human purposes." Instead of taking for granted the existing "working rules" as did the earlier economists, the institutionalists propose to investigate and thereby understand how these working rules evolve, how they affect individual behavior. For it is only through understanding these working rules, through understanding the impact of social institutions, or collective action, upon individual behavior, "that modern administrative economics learns its mechanism of control by collective action." This problem of control, of guidance of the economy, it will be recalled, is the fundamental concern of the institutional economists. They have turned their attention to the question of how our modern industrial economy can be made to perform more effectively. They are in a real sense of the word, "reformers." And they insist that any effec-

77 Commons, Economics of Collective Action, p. 21.
78 Ibid., pp. 192, 91.
79 Commons, Economics of Collective Action, p. 129.
tive economic reform must begin with different premises than those provided by orthodox economic theory. Commons once noted that he had made "extensive historical studies" of various economic and social reformers and had come to the conclusion that the main reason for their failure was the "creation in their own minds of an idealised society, an idealised workingman, an idealised capitalist, an idealised politician, remote from the actual because created in their own humanitarian image." Unable to reconcile their idealized conception of society and its problems they eventually became "disillusioned." And giving up hope for practical reform, they turn

...perhaps into able supporters of the most conservative and reactionary capitalism; or perhaps into despondent pessimists holding that "nothing can be done"; or perhaps into a deistic or materialistic faith that an over-ruuling Providence, or the great inherent forces of natural law, can be trusted to work out those reforms... to which they had formerly devoted their lives.80

Practical and effective reform must abandon this fictionalized picture of society; it must turn as a practical working measure to the instrumental view of what Commons calls "society in action":

...taxpayers' leagues, organized employers, organized labor, corporations, going concerns, political parties, and so on, as they actually behave in their various harmonies and conflicts of interest. Society in action is custom, politics, corporations, in short any form of collective action in greater or less effective control, at the time, of individual action.81

It is to the ubiquitous influence, the pervasive power of collective action--the cornerstone of the modern economic system--to which practical reform must turn, for it is collective or social action, it is

80Commons, *Institutional Economics*, pp. 844-845.
the institutions of society, which control individual behavior, and which in turn are the instrumental means of increasing the freedom of that individual, of reforming and improving society. "Is it not better, therefore," asks Commons,

to recognize in advance the foundations of capitalism, than to turn out individuals who are eventually disillusioned, hopeless, reactionary, revolutionary, or contented with "natural law" instead of a better organized collective action.82

If economic theory is to contribute to the development of society, to the solution of its problems, it must abandon the eighteenth century idealized concept of the individual, of human nature, of the relationship between the individual and society. It must recognize that human nature is a socially determined phenomenon; it must recognize that the one dominant characteristic of the twentieth century industrial economy is collective action in control, liberation, and expansion of individual action—that collective action is indeed the means of social progress. It must abandon its exclusive attention to the price system. Instead, it must look upon existing institutional arrangements—including the price system—as temporary, as instrumental, as one of the variables, rather than as one of the givens.

82 Ibid., p. 846.
CHAPTER VIII

THE INSTITUTIONALISTS' VIEW OF THE MARKET MECHANISM

Introduction

From the limited point of view of the individual, or of the firm, the economic system seems to be a vast market governed by implacable forces to which he, or it, must adapt and conform. And these forces seem to be epitomized by prices—prices for the things that must be bought, prices for whatever the individual has to sell, whether it be land, labor, or capital. It is this compartmentalization of activities—those of buying and selling which result in prices in the market and which seem to be quite distinct from other activities—that formed the basis for the whole tradition of orthodox economics. And quite significantly, the market does exhibit some sort of a system, some sort of an underlying order. It was the incipient realization of this system, or this order, which runs through the hustling and bustling of the market, that first focused attention on the phenomenon of price and subsequently led to the price system being prescinded from all other aspects of life, and thus compartmentalized, being treated as the main subject-matter of a new and distinct science, that of economics.

By the beginning of the nineteenth century, this new science was committed to a course of development to which it has adhered for a century and a half. The object was to understand and to explain the congeries of activities which go to make up the economic system, and by that time, economists were convinced that the mystery was to be revealed in
the behavior of prices.\footnote{Cf. Ayres, The Industrial Economy, chap. xiii, for a more thorough discussion of this background. Ayres notes that this discovery was neither late nor sudden, that "long before there was any systematic economics, learned men were called upon by princes and statesmen to unravel certain peculiar mysteries"—those of money, taxes, and international trade. The exposition, for example, of the automatic equilibrium of goods and gold bullion by "the celebrated philosopher, David Hume, a fellow Scotsman, near neighbor, and good friend of Adam Smith, is now generally considered the most important forerunner of The Wealth of Nations. In short, economics did not begin as the science of price with the subsequent discovery that prices form an equilibrium. The phenomenon of equilibrium was discovered first, and it was this that made economics the science of price" (pp. 326, 327).}

It was thus that price theory was born and thus that it has since been nurtured by economists. Not by all economists, however, for the institutionalists in particular have had grave misgivings about the efficacy of the price system as an organizing mechanism and about price theory as being the explanation of the forces which govern the economic system. Thus, Ayres, one of the more trenchant critics of price theory among the institutionalists noted that

We are approaching the middle of the century with a dawning realization that what has been wrong with economic thinking is its obsession with price. It has seemed to be axiomatic that ours is a price economy. To explain price has been accepted by virtually all economists as their appointed task. That is why criticism of classical theory has failed. So long as economics has remained by common consent the science of price, any particular aspersion upon any particular principle could only be followed by elaboration of other principles to substantially the same effect.\footnote{Ayres, The Theory of Economics Progress, p. 14.}

The institutional economists, however, have demurred from the traditionally accepted position. They have refused to accept the dictum that ours is a price economy, that price is the sole agency by which the economic activities of the community are related, and that therefore, price is the significant problem with which all economists must...
be concerned. Clark, for example, insisted that he was not content to limit his study to "exchange values in a vacuum," that there are, indeed, "many matters truly economic which cannot be contained in the pigeon-hole of exchange value." Instead, he argued for treating the whole pricing system, the entire market mechanism, in terms of "human motives and desires," in terms of "social value," of the "value of things to society." These problems do "not stop with the fixing of a market price," Clark insists, and, furthermore, men "rightly demand that economics should contribute to the solution of these problems." More important, these economists have rejected the traditionally held conception of the market mechanism or the price system as an inherently efficient governor by which the economy is regulated better than any other governor (or government) could do it. These are questions to be explored, in their view, not premises to be assumed as a starting point. And orthodox economics has yet to adopt that view and has yet to make that break with tradition, for it still assumes that the price system as it operates through a competitive market mechanism is a naturally beneficent mechanism which it is their duty to explain the functioning of, if not to justify.

It is the contention of the institutional economists that the economic system is not controlled by the price system or the market mechanism, and that it is not to be understood by starting from that premise. It is their view that the economic system can be understood only in terms of the interplay and interaction of social forces; these forces,

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3 Clark, "Towards a Concept of Social Value," Preface to Social Economics, pp. 60, 61. This entire essay could be read with profit by anyone interested in pursuing this question further from the point of view of one of the institutional economists.
furthermore, are not to be equated with the so-called forces of supply and demand as registered in the functioning of the market mechanism. As we noted in the previous two chapters, there are, in their view, no natural or innate tendencies of man to which the market gives expression. The economic system is, rather, to be understood as a congeries of a multitude of forces--institutional and technological, social and historical; they are what Commons would call the evolutionary result of a myriad of bargaining, rationing, and managerial transactions made and evolved in light of the present, past, and future habits of society; they are an important example of collective action in the control, liberation, and expansion of individual action. And economics is a pragmatic study of this whole process-in-action—not just those transactions resulting in price—with a view to controlling, regulating and guiding the development of that process in the interests of the whole social group. Thus it is that the institutional economists hold that for an understanding of our modern industrial economy, the economist must make a fresh start; the old way of thinking, centered in the belief that the price system is the economist's Rosetta stone, must be abandoned. It will not suffice to continue laying stone upon stone in erecting an awesome edifice because the very foundations were ill-conceived.

The economist, heretofore, says Clark, has "been content to let the market decide the uses to which economic goods should be put." It was only his duty and function to explain how those goods ended where they did through the price-performing mechanism of the market. Clark, however, suggests that the economist must "make a declaration of partial independence from the market," which though a useful tool, it is not complete.\(^4\) In the view of these economists, economic theory has found

\(^4\)Clark, "Economic Principles of the New Civilization," Our Emergent
itself stultified by the legacy of the market-organized economy which has bequeathed to us an over-simplified view of the economy and of the function of the economist. The search for an answer to the problems of our present day industrial economy is not merely a search for a solution to the problem of the market—to make it run more efficiently, to add oil to the round-bottomed bowl so that marbles will adjust more easily. The search is much deeper than that. But if successful, industrial society will, in the view of the institutionalists, continue to exist, will, in fact, grow and flourish, when the experiment of a self-adjusting, market-organized, economy is no more than a footnote in history books.

As a matter of fact, the institutional economists hold that in a very real sense of the word, the so-called "ideal" of a market-organized economy was never more than a myth embellished by the economists. Tugwell, for example, argues that society long ago established a "vast political-social machinery" to ensure that the forces of the market "do not work out in the way that is described by the economists as though it were inevitable and benevolent." Though exalted by the economists, "no enlightened society will tolerate the free working out of such forces." Social values are simply too important to permit the machinations of


the market to function as if they were inexorable natural law. This theology of a market-organized economy had disastrous results; what emerged from it was not providential order, but chaos that came to engulf larger and larger areas of the globe. The subjugation of labor, the depletion of natural resources, the ever-present problem of mass unemployment, all indicated that there was something less than an omniscient hand guiding the destiny of industrial society. While there were of course gains, the social cost was inordinate. And it was from this experience that society undertook to alter and guide the forces of the market. To recognize, if only subconsciously, that the market is but a means, an instrument, for the development of social values; to be employed on some occasions and to be ignored on others. This is the point Commons was emphasizing when he recognized that "interference with the law of supply and demand has always been the main objection raised against all collective action," but society has continued to resort to collective action to overrule the market, "these interferences have nevertheless been repeated and cumulated for a hundred years, because the alternatives of noninterference under the circumstances were deemed worse than the interferences."6

Clark, in the same vein, pointed out that the market mechanism cannot be said to register social values so long as society does not accept the results—not in the sense of merely being resigned to them as an inevitable evil, but unwilling to lessen them if it could. "So long as this does not represent the prevailing sentiment, so long it will be impossible to say that market value measures 'social value' in the sense of 'value to society.'" There are many instances, says Clark, of "stan-

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6 Commons, Economics of Collective Action, p. 137.
dards of value contrary to those of the free market." And unless economics can become cognizant of those social values, unless it can effectively use them, it thereby misses its chance to perform one of its essential functions—"to contribute scientifically to economic reform." Economists, Clark insisted, do of course use standards of social value in their "practical thinking on matters of public policy," whether it be in supporting industrial insurance, a minimum wage law, regulation for the banking system, or for the subsidization of some industries. "Every measure of economic reform on which he expresses an opinion represents an estimate of social value of one sort or another, different from that of the market." In spite of all this practical recognition of the prior importance of social values to those of the market, in spite of the recognition that the market does not work toward social ends, "scarcely a breath penetrates to the rarified atmosphere of technical discussions of the theory of value and distribution." And thus Clark criticizes the economist, who by retreating to the security of this economic theory, holds "aloof from the implications of his own thought and actions."7

The delegation to the self-adjusting market of all matters economic is no longer acceptable to society, the institutionalists argue, and it is therefore their contention that if economic theory is to contribute to the solution of social-economic problems, it must take full cognizance of this. In the words of Hamilton, "the sovereignty of the market is past; the political controls are here and we must subdue them to the public interest as best we can."8 The economist can no longer

7 Clark, "Towards a Concept of Social Value," pp. 50-53 passim.
hold aloof from the vast strides that have been taken in circumventing the market in the interest of furthering social values. He can no longer pretend that the market mechanism and the price system are the alpha and omega of all matters economic. Economists must recognize, in their thinking and their theorizing, that the locus of power has shifted from the amorphous market to the social group, from the individual to various forms of collective action undertaken to further the interests of society. Hamilton warns, however, that the exercise of this power by the social group "must be based upon adequate knowledge"; it must lead to social measures useful for and suitable to the needs of the era. 9 It is Hamilton's view, that the foundations of a more productive and abundant economy—the technical and scientific know-how, the resources, both human and material—are now available. 10 What is still missing, however, is the "art of control." And it is that vacuum which economics must fill—the knowledge and understanding necessary for collective or social action. To fill that vacuum, the economist must abandon his traditional view of the market and the price system as an "end," as something "given"; he must view it as but one of many institutions available, as but a means to be employed in economic reform. Thus Tugwell argued that there is a new attitude emerging "concerning markets and prices which has a different end in view." This new attitude "stresses results desired rather than the mechanism by which they are attained"; it has to do with the social consequences of the market mechanism and the pricing process, rather than the mechanism it-

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9 Hamilton, Price and Price Policies, p. 556. This recognition of the instrumental nature of knowledge and of its use in meeting the demands of social action is, as we noted in Chapter V, one of the important facets of the institutionalists' way of thinking.

10 We shall return to this point later in this chapter.
self. We are not so certain any more, adds Tugwell,

that so vital a concern for society as "incomes and standards of living" ought to be left to the vagaries of the market. ... The idea grows that the national income and its apportionment is a matter which ought not to be left without some social supervision.11

Although it is true, as the economists have long pointed out, that the forces of supply and demand do determine prices, in Tugwell's view, "it simply does not follow that the public interest is best served by allowing the supply of and the demand for commodities to remain completely and solely determinative."12 Thus to these economists, as Clark noted, it therefore seems "inevitable that there should be a searching reconsideration of the question of what we want an economic system to do for us in the light of this vast increase in potentially available productive power and altered social and national objectives or requirements." And, as Clark recognizes, although answers will not be easily or quickly formulated, "economics will need to raise this question and ... if it is answered by conventional formulas based solely on satisfying commercial dollar demand, it will not be facing the realities of the time."13 Thus, according to Clark, "economists must deal with quantities and qualities of which actual market prices are not the only measure," indeed, they must take into consideration many which "command no market price at all."14 They must consider

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11 Tugwell, The Industrial Discipline, p. 178. Cf. p. 256, above, for Clark's similar comment.
12 Tugwell, The Industrial Discipline, p. 178.
inappropriables, and the social values which differ from those of free exchange, also the importance of institutional valuations and their influence upon social action, they must recognize the widespread prevalence of unpaid costs, of those overhead costs not allocated by the market, but which must be borne by society.\textsuperscript{15} These considerations, these extra-market influences, must be considered, says Clark, "if we are to have any standard of judgment on economic reforms which are continually overruling the valuations of the market."\textsuperscript{16}

The economist, then, must widen the scope of both his inquiry and his theory; it is his function to do more than to show by means of algebra, geometry, or calculus what are the possible price alternatives of different kinds of markets; he is, rather, to show how the market mechanism and the price system, can be used as one of many instruments of control. He must stress social desires and social results, not merely explain one mechanism for achieving those results. He is to concentrate, not on the causes and determinants of price, but on the function of the price system and the market mechanism as one instrument of social organization.

The Significance of the Price System

The center of interest in orthodox economics has been and continues to be, price theory, or value and distribution theory. But in the view of the institutionalists, "if theory is to take its proper place, the center of interest must be shifted and price economics must become


\textsuperscript{16} Clark, "The Concept of Value—a Rejoinder," QJE, August, 1915, pp. 709-710.
Elaborating on this point, Clark draws a distinction between the two:

The central problem of social economics is the organization of the economic forces of society to get and to do the things that are wanted. Price is of interest, not so much for its own sake as in view of the part it plays in this work of organization. Value economics is primarily interested in the determining causes of price; social economics is primarily interested in its function as an organizing agency.

The point is that the institutional economists do not fail to recognize the importance of the price system, as some of its critics have charged. The issue is not whether it is recognized as being important, but just what is that importance, just what is the significance of the price system. In the opinion of Ayres, orthodox economics has found in the price system and the market mechanism the forces which have shaped the modern economy; it "attributes industrial development, past, present, and future, to the operation of the price system and the institutions which define the market"; and it is this interpretation with which the institutionalists disagree. To deny this significance to the price system does not mean, as Ayres recognized, that there is not an intricate and interrelated mutual adjustment of one price to others. "A causal nexus does indeed run through the whole universe of price linking all price phenomena together into an integrated causal


\[18\] Ibid., pp. 286-287. Gruchy, Modern Economic Thought, pp. 572ff also points out this as being typical of their point of view.


\[20\] Ayres, Theory of Economic Progress, p. 35.
system." But it is not within this network, intricate and inter-related as it may be, that the understanding of the modern economy is to be found. It is not the price system nor the market mechanism that shaped our modern economy. The market mechanism is not the master plan by which the whole community is organized. This is what Clark meant when he said that the apparent ability of the market to organize our material interests has "deluded many of us, for some hundred and seventy years, into thinking that it could do all that was needed to organize an economic community on a basis of consent as embodied in the act of free exchange." It has been "growingly evident," however, that this was expecting too much, that this was imputing to the market capabilities "far beyond its powers." We have finally discovered, says Clark, that the market can give expression to only some interests and forces, and that this is "not enough to constitute a society."

Thus it is not price, as registered in the market mechanism as a response to the forces of supply and demand, which is the organizing instrumentality of the economy. The price system simply reflects whatever degree of order may prevail in society as a whole:

When society as a whole (and the economy as a part of it) is tranquil, that tranquility will be reflected in the behavior of buyers and sellers and therefore in the patterns prices form. When society, including the economy, is disturbed, that disturbance will be reflected in the market and the price system.

The truth is that our economy is not organized by the market mechanism. The market is organized by the economy. The order which the market exhibits is derived from the organizational patterns of the economy and is an expression of such order as actu-

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21 Ayres, Theory of Economic Progress, p. 35.

22 Clark, Alternative to Serfdom, p. 5.
ally obtains in the economy.\textsuperscript{23}

All that the price system can do is to give expression to the social forces, to the institutions and mores, the habits of thought, to the various forms of collective action extant or developing in the society at any given time, to the state of the arts, which is itself a social force, "an active organizing process," in Clark's words.\textsuperscript{24} The market, as Walton Hamilton noted, is not a creator, but is rather a mediator; it is an umpire, not a governor. "All that is culture—the industrial arts, the organization of industries, the processes of marketing, the ways of life—converge there with their host of conflicting claims."

In all its operation, the price system is but a recorder of social customs.\textsuperscript{25}

It was in this sense that Commons emphasized the necessity of studying, not the determinants of price, nor the distinction between nominal and actual prices, as the orthodox economist had done, but rather the importance of price movements as indicators of broader social and historical movements. The eighteenth and nineteenth century economists were unable to recognize this importance, according to Commons, because they were unable to incorporate this point of view "in their more fundamental theories of nature and man...." The historical and social significance of price movements came from later developments—"namely, statistics, and mathematics, which have nothing to do with labor, pain, or pleasure."\textsuperscript{26}

\begin{itemize}
\item \textsuperscript{23} Ayres, The Industrial Economy, pp. 344-5, 349.
\item \textsuperscript{24} Clark, "Economics and Modern Psychology," p. 129.
\item \textsuperscript{25} Hamilton, Walton, Price and Price Policies, pp. 549, 546.
\item \textsuperscript{26} Commons, Institutional Economics, p. 124; cf. also the section "Economic Backbone of History," ibid., pp. 121-124, for a fuller elabor-
In the view of orthodox economics, it is the market mechanism which allocates the community's resources to various and conflicting demands upon them in the most efficient manner possible. Any sort of disposition of the community's resources would of course be some sort of allocation. Stealing, for example, is one type of allocation of consumer's goods (or land, or cattle, or whatever the burglar chose to allocate to himself). But in the opinion of the institutionalists, it is not just any type of allocation which the orthodox economist attributes to the market. Ayres, for example, criticizes the orthodox tradition which sees

... in the machinery of the price system the most satisfactory possible organization of the economic resources of the community, one to which it therefore attributed the whole process of economic growth, passing over completely all that we now interpret as industrial revolution. ...

To those who define the problem of economics in that way, the market mechanism is not merely "an" instrument of allocation; it is "the" instrument; and the allocation it achieves is the most satisfactory one conceivable—human wants and nature's scarcity being what they are—and the only alternative to the asperities of dictatorship.

This tradition still persists in orthodox price theory, according to Ayres, and is responsible for the unthinking condemnation of all economic planning as unwarrantable and futile, at the very least, and in all probability "the work of reformers who aspire to dictatorship." 27

The institutional economists are unwilling to attach such significance to the market mechanism as the instrument of allocation, or organization, or distribution. All the market can do is to give effect to underlying social forces. This would have been recognized,

(Cont.) action of the importance of studying prices versus the importance of studying price movements.

27 Ayres, The Industrial Economy, p. 369.
even in the eighteenth century, but for the fact that the market does seem to behave as the orthodox economist depicts it—on the individual level:

To individuals, trying to do the best they can with their limited talents and opportunities, the market seems to be the boss, just as to the individual motorist the traffic policeman seems to have the power to determine in what direction and at what rate he shall proceed. The motorist of course knows that the policeman is only a very minor executant of traffic regulations... This is also true of the market. What the market does, and all it does, is to give effect to the institutional patterns and arrangements which prevail in the structure of society itself. ...

It is the structure of society that allocates the community's resources, just as it is the state of the community's arts and crafts that defines those resources, determining their over-all relative abundance. Price patterns reveal those underlying conditions and give effect to them. In that sense the market does "allocate"—the same sense in which the policeman directs traffic—and in that sense only.28

Thus, if at any given time, the results of the market mechanism are deemed unsatisfactory, it is to the structure of society that we must look for the explanation, "the allocations of the market will ... have whatever consequences are implicit in the social order to which they give effect."29 Thus, any defect in the economy, such as the deep-lying tendency toward instability which it has exhibited in recent decades, cannot be corrected through the automatic functioning of the market mechanism; the market simply registers the instability inherent in the underlying social structure of the modern industrial economy. This means, and it is this meaning which is of primary importance to the institutional economists, that the organized community may take whatever steps it desires to effect changes or modifications in the functioning of the

28Ibid., p. 370.
29Ayres, The Industrial Economy, p. 371.
This does not imply of course, as Ayres emphasized, "that all study of prices is fatuous." But it does mean that such study will proceed from the premise that the economy is ruled and organized by the movements of the autonomous market. As Ayres noted, "prices do serve as a tremendously important indicator of what is going on." They are important to the businessman, to social and governmental agencies of every sort. The investigations of economists, of research bureaus, and governmental agencies have "given us a wealth of knowledge of price relationships the effect of which is to show us how various economic activities affect each other." All this is important and of significant value, but this is a quite different matter than assuming that these price formulas are the principles of economics "in the sense of providing the basic tools for understanding how the industrial economy came to be what it is and how it now operates." The point Ayres is making is the same we noted earlier that Commons had emphasized: that it is important to watch the movements of prices as an indicator of what is going on in the economy, just as it is important to watch freight car loadings, steel production, or census data. But the understanding of the economic system is not to be gained from the theory of price, any more than it is from a theory of freight car loadings, steel production, or census data. It is from this point of view that the "institutionalists have advocated and practiced systematic inquiry" into the movements of prices, the actualities of price policy and market movements. "But this is a very different matter from treating the market.

30 Ibid.
31 Ibid., pp. 36-37, and 200-201.
as the prime determinant of the economic fate of the community, or attempting to read the horoscope of the economy in the crystal ball of price."

Their is an attempt to put the price system and the market mechanism in a proper perspective, to recognize that it is the function of the economist to do more than explain by abstract reasoning the hypothetical movements of prices under various assumed market conditions. It is simply a recognition that the price system and the market mechanism are instrumentalities, to be employed by the economist in his endeavor to bring about needed reforms and improvements in the economic system. From this point of view, the economist will, as Clark noted, "lay as much emphasis as ever on price as an instrument of productive organization, but will tend to discredit it as the aim, end, and final measure of all things economic." The price system and the market mechanism will simply be viewed as an instrument of organization, allocation, and distribution—not as the instrument.

The Efficacy of the Market Mechanism

Taking an instrumentalist view of the market mechanism as simply an instrument of organization, allocation, and distribution for affecting the economic welfare of society, the institutional economists have found it deficient on several grounds. It has not been the automatic beneficial governor which earlier economists had assumed; it has resulted in a distribution of the national income which, in their view, is not only unfair and unjust, but contains in it the seeds of its own


33 Clark, "Economics and Modern Psychology," p. 150; emphasis added.
destruction. It has resulted in a concentration of wealth and economic power quite inconsistent not only with democratic and humanitarian tenets, but also inconsistent with the welfare and stability of the whole social organism. And in the view of Walton Hamilton, the institution of the "price-system has denied to us a consciously formulated theory of social development." The delegation of all matters economic to the price system and the market mechanism has resulted in a conservative attitude on the part of all members of society toward any proposal or suggestion for change or reform. The result has been to maintain old conventions and institutions, old notions about the efficacy of the market mechanism as a naturally efficient regulator of the economy. It is Hamilton's view that among the various antecedents and institutions affecting social policy, "the most pertinent" has been "the omnipresent and unescapable price-system." It is his thesis that any social policy which could be accepted within the framework of the ubiquitous price system, must meet two requirements: "The first is a demand for a preservation against collective action seeking to change conventional arrangements. ... The second is an approval of a program of exploitation or expansion which gives promise of increases in pecuniary incomes." We have thus failed to establish an "economic democracy" when it was within our power to do so, and this failure is "inseparable" from the "social policy which has sought as its first object the maintenance of the immediate and mutual pecuniary interests" of the various members of society. The only policies which were acceptable were

those which conformed to the beliefs bequeathed to us by our notions about the price system, and the result was simply "to enlarge old opportunities for money-making," and thus to bring about an increased concentration of wealth and economic power. Thus it was that a "continent possessed of boundless resources," coupled with a "marvelous machine technique which could turn them into a golden stream of incomes," has under the aegis of the price system and the social philosophy which it nurtured, led to "reckless exploitation"; the price system has denied us a consciously formulated policy for economic development and instead simply "opened opportunities for those who have wealth and power to have yet more abundantly."37

This resultant maldistribution in the income of the community, in its wealth and economic power, is, in the view, of the institutional economists, one of the basic weaknesses of the market mechanism as it has functioned, unsupervised and unguided. But it has not been a natural nor an inevitable result. It is simply the result of the market functioning in a particular social milieu. As Ayres rather pointedly put it,

In its distributive aspect, our economy is what it is because the institutional structure of Western society is what it is. Who gets what is wholly determined by that organizational structure. This is the universe of discourse to which terms such as wealth and investment are truly pertinent, and also such terms as dividends, interest, rent, salary, wages, parity payments, poor relief, and social security. All these terms designate the various groups and strata into which the community is divided by the prevailing institutional system. ... Moreover, there is nothing automatic or self-regulating about it, any more than there is about family life or government or any other aspect of the social structure.38

37 Ibid., p. 64.

The market mechanism simply implements the existing institutional and technological forces, "it does not create that situation on either the technological or the institutional side..."\(^{39}\)

This reorientation of the role of the market as merely an instrument of social forces does have important consequences in the area of social policy, for it does permit organized society to modify or alter the result of those forces if it so desires. And one important area in need of alternation in the opinion of these economists is in the distribution of income—which was not possible so long as the market was viewed as a self-regulating, autonomous, mechanism; so long, as Walton Hamilton emphasized, as the price system continued to dominate social thinking. And Ayres levelled this same criticism, pointing out that "by far the most important practical consequence of the theory of the self-regulating market was its apparent justification of a social structure characterized by a high degree of inequality of wealth and income."\(^{40}\) "Justified" in the view of Ayres, because what price equilibrium and the self-regulating market were supposed to achieve was

... to effect two sets of adjustments, one between the rich and the poor, and another between "alternative uses" of the instruments and materials of production; and these two adjustments must be adjusted to each other so as to maximize the national dividend.\(^{41}\)

And thus any resulting distribution of income was the best possible in light of present demands for consumer goods versus the present demand for capital goods. Saving was thus deemed a supreme virtue since it was the factor responsible for industrial growth.

The original formulation of this theory did reflect, to a consider-

\(^{39}\) Ibid., p. 284.

\(^{40}\) Ibid.

\(^{41}\) Ayres, Theory of Economic Progress, p. 259.
able extent, the then-existing economic conditions. The early economists lived in a world characterized by extreme inequalities of wealth and income; but it was also a world in which the national dividend was obviously on the increase. These economists were impressed by the change which took place in the form of inequality—the shift from land ownership to money ownership as the basis of economic and social power—simultaneously with the growth of the national dividend.

It was the simultaneity of these changes which gave rise to the belief in a causal relationship between them. This conviction was nourished by the institutional apparatus and ideology of capitalism and so eventuated in the theory that the growth of the national dividend is contingent upon a social structure in which inequality results in saving, saving in the growth of capital, and the growth of capital in the increase of the national dividend.  

It is this view—the idea that economic inequality is the cause of industrial progress by which all members of the community are eventually blessed—with which the institutionalists disagree. It is not merely a matter of feeling that what is produced is distributed in an unjust or unfair manner, but that due to this very inequality, the industrial economy fails to achieve its industrial potential. The self-regulating market has simply failed to provide the great bulk of consumers with the power to purchase the goods which the economic system is capable of producing. And in particular, in the mass market of the twentieth century, this inequality of income, rather than leading to still further advances in output through the savings-investment channel, by restricting the market leads to a contraction of production. As Clark pointed out,

Our industrial efficiency is built on mass production, and to keep it at work properly requires mass consump-

42 Ibid., p. 260.
tion; in other words, fairly liberal incomes distributed among the mass of the people. 43

This is, of course, the underconsumptionist view of the economy—the view as also expressed by Ayres that

In order to produce we must consume. Economic stability and the full utilization of our productive skill are contingent on the distribution of consumer purchasing power. 44

It is underconsumptionism, but with a difference. For what the main objection is in this case, is the view which the idea of a self-regulating autonomous market has implanted, both in the minds of economists and in its effect on social philosophy. The idea of price equilibrium in a self-regulating market, coupled with the doctrine that industrial growth is contingent upon the accumulation of vast sums of money, made that accumulation the "first anxious care of a sound economy." Thus, both in our thinking and in our acting, the accumulation of savings was placed "at the head of the council table." 45 And the process of industrial growth, the realization of our productive potential, was relegated to the automatic functioning of the market to allocate goods between present and future demand; extreme inequality and dire poverty were to be deplored on humanitarian grounds perhaps, but they were simply the price society had to pay for progress.

Viewing the market, however, as simply a register of social forces, and not as the governor of the economic system, the institutionalists take a rather dim view of inequality as a necessary condition of economic

progress, of industrial development. It is their view that there is
no direct connection between savings or nonconsumption and industrial
development. The market does not automatically allocate goods between
present and future demand, it simply distributes income in accordance
with the prevailing social structure of society. Funds are accumulated,
not because of time preference, or because some people are more thrifty
than others; they are accumulated for the very simple reason that due
to the way the market operates as a register of social forces, some
people are richer than others. It is not a matter of marginal pro-
ductivity, but of existing social structures. And

All attempts to idealize the accumulation of money
are beside the point, and so are all attempts to dis-
credit capitalism on the ground of the cruel inequali-
ties on which it rests. Capitalism is neither sus-
tained nor discredited by the facts of inequality; it
is inequality which in the last analysis is to be
justified by capitalism.  

The institutionalists argue that this inequality is not justified—ex-
cept on the supposition of a self-regulating autonomous market, in
which case, savings automatically find their way into spending and
there is no problem. The market is not this self-equilibrating

46 Cf. Clark, "The Riddle of Business Cycles," p. 1110, for example.

47 Ayres, Theory of Economic Progress, pp. 52-53.

48 Ayres noted in this connection that "it is ... highly signifi-
cant that the hottest theoretical controversy of this century centers
in the doctrine of saving. The shift of emphasis from saving to in-
vestment reveals a trend within orthodox economic theory itself toward
a unified theory of social organization ("The Role of Technology in Eco-
nomic Theory," p. 284). This of course, represents the influence of
Keynes upon current economic thinking, but in the view of Ayres, ortho-
dox economic theory, including Keynesian economics--to which he refers
as the "most formidable expression" of the underconsumptionists ("The
Co-ordinates of Institutionalism," p. 48)--will be unable to achieve
this unified theory of social organization so long as it looks upon the
price system and the market mechanism as determinant rather than instru-
mental.
mechanism, however. And as it has operated in the past it has given 
rise to a distribution of incomes such that the economy has chroni-
cally suffered from a deficiency of mass purchasing power accompanied 
by a surplus of funds for investment spending.

As it has actually operated—as the autonomous regulator of the 
economy—it has not functioned so as to bring the level of social well-
being of which it was potentially capable. It was this deficiency in 
the market mechanism, or what he calls our "economic organization," 
which Mitchell called attention to:

The factor which is thwarting our desires lies in our 
economic organization—that elaborate scheme which 
intervenes between men as producers and the same men 
as consumers. ...

But the inefficiency of our economic organization is 
not limited to these transitory periods of cyclical 
depression. The fact is that in good times as well 
as in bad our economic organization prevents society 
from producing as large a real income as natural re-
sources, man power, plant capacity, and engineering 
skill make possible.49

Mitchell, also as a member of a subcommittee to investigate the possi-
bilities of increasing total production with existing technical facili-
ties, concluded that it was the judgment of engineers and engineering 
executives interviewed that "the productivity of industry could be 
greatly increased with existing facilities, were it not for limits to 
effective demand...." But, added Mitchell,

Experience promptly rejects the hypothesis that demand 
is restricted because all—or anywhere near all—con-
sumer wants are satisfied. Presumably, therefore, the 
restriction of demand is caused by ineffectiveness, due 
to the existence of interfering institutions or the 
absence of essential institutions, in the functioning 
of the processes whereby total income is distributed

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49Mitchell, "Engineering, Economics and the Problem of Social Well-
and transformed into purchasing power. Were income properly, promptly, and smoothly distributed and transformed into purchasing power, productivity and the standard of living could be increased indefinitely through a continuous dynamic interaction and adjustment.50

And J. M. Clark, as a participant in the same project, devoted a paper addressed to the same question—"whether there exists a condition which can be correctly described as a chronic limitation of production owing to limitation of effective demand...."51 He notes, after a preliminary examination of the problem and reference to the report of the subcommittee of which Mitchell was a member, that

The present report will assume that it has been reasonably well established that there exists a very considerable margin of unused productive capacity owing to the condition commonly thought of and spoken of as limited effective demand.52

Among the faults contributing to this condition of affairs, Clark lists the "undue concentration of incomes and probably a resulting tendency to over-saving." And he concludes in this connection, that

Any move in the direction of more equal distribution would mean an increased market for the things industry knows how to produce and for which it has spare capacity. If this were achieved mainly at the expense of reducing a volume of savings so swollen that a considerable part of it goes to waste, the change would be very nearly a clear gain.53

Although this study was undertaken during the dark days of the depression, Clark raises the more important and "more permanent question of


51Clark, "Productive Capacity and Effective Demand," ibid., p. 105.

52Ibid., p. 106.

53Ibid., p. 125.
our power to absorb increased productive power in the long run."

And

Here it seems clear that there is no fixed limit to this power, but that, under present conditions, our power to absorb has not kept pace with our power to produce.\textsuperscript{54}

Thus, whether in the long run or in the short run, the market mechanism has not operated as depicted in the manuals of orthodox price theory. It has resulted in a distribution of income such that society was never able to realize the full potential of its existing productive capacity. And this was not any natural or pre-ordained state of affairs, but due to what Mitchell called the "interfering institutions," or the "absence of essential institutions" which could have corrected this problem.

Orthodox economics was never able to solve this problem, however, for it defined \textbf{a priori} the problem of economics as the explanation of the determinants of price under various assumed market conditions. Since, however, it is the view of the institutionalists that the market is but an instrument for achieving social goals, this result can and must be corrected by social action. But as long as the market is idealized as \textbf{the} instrument of social organization, such social action was impossible. It is only by recognizing it as a means, as an instrument, that joint or collective action can be taken to assure the full and continuous utilization of our productive potential. The necessary strategy—the social distribution of income—has not yet gained acceptance as \textit{laissez faire} once did,

But the facts of which such a theory of economic progress would be a formulation are there and are already

\textsuperscript{54} Clark, \textit{ibid.}, p. 121.
dimly realized. Sooner or later we shall achieve a theoretical reformulation of the economic life process of which the strategy of income distribution will be the inexorable logical consequence and the prelude to a new age of economic progress.55

It is this reformulation of the economic life process of the community which the institutionalists are attempting to evolve. And the necessary first step in its formulation is a recognition of the market mechanism and the price system as but instruments for social usage. It is not enough to recognize that the market does not function as effectively as it should because of monopolistic elements and therefore to advocate the elimination of this monopoly to make the market work better—in other words, more competitively. It must be recognized as but a social instrument which can be altered or modified by collective action to meet today's social-economic problems, to increase the well-being of the community.

This reformulation of the economic life process of the community, emphasizing the market as but a means to social ends, involves, in the view of the institutionalists, a redefinition of social-economic objectives. It involves a de-emphasis upon money-making as the criterion of socially acceptable measures; it involves the social supervision of the economic system, including the distribution of money income; it involves a denial of the potency of accumulated funds as a necessary condition of industrial progress:

Gradually but inexorably a state of mind is growing in which the continuous efficient operation of industrial machinery will have replaced the accumulation of funds as the object of general concern and the aim of public policy.56

Thus, physical production, and not a competitive equilibrium of prices,


56 Ayres, Theory of Economic Progress, p. 306.
is in their view, the basis of a sound economy. The full realization of our productive potential, the efficient utilization of our manpower, machines and resources, and not the accumulation of financial capital, is their view of sound social objectives for the economic system. As Walton Hamilton stated it, "there is no surer index to the quality of a culture than the state of its industrial arts." In almost identical words, Ayres held that "it is the state of the industrial arts that determines why any people, taken as a whole, are as well off or as ill off as they are."  

Few economists would find occasion to disagree very strongly with either of these statements. It has probably been the accepted objective of all economists, orthodox or underworld, from Adam Smith to the present, that these were the main objectives of a sound economy, the raison d'être of economic analysis. But the terms in which these objectives were formulated by the mainstream of economists and by the institutionalists differ substantially. Essentially, the orthodox economist attributes industrial growth to savings, to the prior accumulation of funds. And this is, of course, why this accumulation was made the first anxious care for a sound economy. It is this premise to which the institutionalists take strong exception. To argue that industrial development is contingent upon the prior accumulation of funds is to be guilty of the fallacy of post hoc ergo propter hoc. The rise of Sirius above the horizon may have preceded each annual flooding of the Nile, but there was no causal


58 Ayres, The Industrial Economy, p. 84.
connection. And likewise, the great revolution in scientific thinking culminating in the seventeenth century, the work of Copernicus, Galileo, and Newton, is not to be imputed to the prior accumulation of funds, to the rise of the free market as such, nor to the profit motive. Neither is the work of Faraday, Pasteur, Darwin, Maxwell, or Einstein to be attributed to the market, nor is the significance of their scientific discoveries and contributions to be explained as having been made possible by prior savings. Their discoveries and contributions were significant, however, for the industrial development of the Western world.

It is of course true that whether or not an individual or firm is able to acquire the necessary goods does depend, in our society, upon having or being able to obtain the necessary financial capital. The possession of money capital does mean the power to assemble industrial capital; and it is from this reasoning that it is assumed that in the historical process of industrial evolution it is money that gives rise to society's industrial development. But this confuses what may be true of individuals with what is true of society. And it is this confusion with which the institutionalists disagree. Thus, J. M. Clark noted that in the realm of "common sense," it would seem natural that if society spends more on one thing there would then be less to spend on other things, that "if more is to be spent on capital goods, more must be saved and less spent on consumption." Whatever common sense


may seem to indicate, Clark pointed out that "quantitative studies show us that we reach our largest consumption at the same time when we are also making the largest investments in tangible capital goods...." This strongly suggests to Clark that by "spending more for one thing, the economy as a whole may have more left to spend on other things,"\(^\text{61}\) which is a rather different view than supposing that only by cutting down, by abstaining, can capital goods be brought into existence. And he noted in another paper that with the given distribution of incomes and the resulting tendency toward over-saving there can be "more spending by business" for capital goods expansion "without less spending by consumers."\(^\text{62}\) Clark also cited as an illustration the case of allied purchases of war materiel during 1915-1916, at which time we were able to send them billions of dollars worth of goods, at the same time to expand our industrial capacity, and "in addition have more real income left for domestic consumption than ever before."

The fact that our national economy received no real or ultimate payment for the goods sent abroad sharpens the paradox.... The goods were sold on credit, and immediate dollar payment was forthcoming by expansionary methods. ... Thus our real domestic spending power was increased, not in spite of sending more goods abroad, but because of it.\(^\text{63}\)

It was from such studies as these that Clark concluded that industrial expansion does not depend upon the prior accumulation of funds; it does not have to wait "for individuals to pile up original savings enough to finance the projects in hand."\(^\text{64}\) When the potential of industrial ex-

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\(^{61}\) Clark, "Aggregate Spending by Public Works," Preface to Social Economics, p. 380; reprinted by permission from the AER, March, 1933.


\(^{63}\) Clark, "Aggregate Spending by Public Works," p. 381.

\(^{64}\) Clark, "Productive Capacity and Effective Demand," Economic Reconstruction, pp. 109, 114.
expansion is extant, "the elasticity of the credit system furnishes sufficient funds so that the amounts which expanding business can spend are not limited by the amount of prior savings available."65

This is the same point Ayres made when he dismissed the "notion that current industrial growth is dependent upon the previous accumulation and current outlay of an aggregate of funds." This is simply not the case; this is confusing what is true of individuals with what is true of social growth; it is confusing the role of Sirius in relation to the flooding of the Nile.

We know that industrial growth such as took place in the United States during the recent war was not preceded, or conditioned, by any such accumulation. For example, it is quite inconceivable today to suppose that the President of the United States might have replied to the scientists who laid before him the project of nuclear fission, "Gentlemen, this is a very promising idea. Such a weapon as you describe might indeed turn the tides of war. But gentlemen, we simply do not have the money." As the sober and conservative London Economist remarked editorially, in commenting on the lessons of the war, we have learned that anything that is possible physically is possible financially.66

The point that both Ayres and Clark are making is that economic growth is self-financing. Actual industrial growth is dependent upon previous industrial growth—not upon previous financial savings. And it is the prospect of actual growth that justifies the "creation" of funds by the banking system or the government. This does not mean of course that either banks or the government can safely create new money by whim; if the creation does not result in new industrial development, it can have disastrous results. If, however, there is potential industrial growth, then that is what will bring the new funds into existence. It

66 Ayres, The Industrial Economy, pp. 116-117.
is our "technological competence" to create new industrial plants
that makes the "financing possible—the exact reverse of the tradi-
tional supposition."\(^{67}\)

This technological competence, the process of technological devel-
opment, is the crucial factor to be nurtured and cared for. But it
is not previous savings that feed this development, this growth. It
is research and idle curiosity; it is knowledge added to the storehouse
of knowledge that is the heritage of society. And that research, that
new knowledge, is not made possible by pieces of paper accumulated dur-
ing some previous period. It is made possible, and in increasing amounts,
by the increasing productivity which it itself is responsible for. The
research physicist is supported, not by pieces of paper in a vault, nor
by pen marks on a ledger, that were put aside yesterday. He is supported
by the expanding productivity which he and his predecessors, back through
Einstein, Maxwell, Pasteur, Faraday, Newton, Galileo, and on into anti-
quity, made possible. In Walton Hamilton's words:

> The industrial arts are rooted in the long ago, passed
on as a cultural legacy, and subject to improvement.
As a body of useful knowledge they are the possession
of the entire people; from the store of techniques and
skills every man may draw as his particular calling
demands.\(^{68}\)

At the base of each invention, of each industrial or technological pro-
cess, there lies a "mite of knowledge." As that knowledge grew through
unknown millennia, as it increased in complexity and intricacy, man "con-
verts more and more of the great unknown to his own account."\(^{69}\) "The
creative urge runs deep," says Hamilton; "an ability to invent is indig-

\(^{67}\) Ibid., p. 117.

\(^{68}\) Ibid., Walton, "Patents and Free Enterprise," TNEC Monograph,
No. 31, p. 1.

\(^{69}\) Ibid., p. 4.
enous to humanity" not to particular races, nor to particular times. Though it of course takes place in the minds of individuals, invention and technological progress is a social or community affair. When this "mite of knowledge" was first discovered and how man first stumbled upon it, we can only guess, but "once a beginning was made, the carry-on would in time take care of itself." As life goes on, small variations in the daily round are inevitable.

Each mutation presents some slight difference in result, and among the people there are some who will observe, repeat, and learn. As tribes are thrown together, in trade or in war, a process of borrowing is inevitable and in some fertile mind elements from two cultures unite to form a tool or a technique not known before.

The "pioneer work" in today's society is carried on in the laboratories and workshops of the government, the universities and the foundations. "Here scientists, who are salaried employees, make an advance of the bounds of knowledge their regular occupation." The funds which they draw to account are those deposited by their predecessors in previous days. It is the fund which Commons describes as

... the accumulation of embodied ideas from the dawn

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70 Ibid., p. 29.

71 Hamilton, Walton, "Patents and Free Enterprise," p. 4. It is because of the crucial importance of the industrial arts to the welfare of the community that Hamilton comes to the conclusion that the institution of the patent system no longer functions to facilitate the development of the industrial arts, that it in fact is obsolete and should be markedly changed. As he pointed out, "no one would think of a scheme of usage, which seemed good enough a century and a half ago, as at present very useful for labor or land. No one would regard the obvious arrangements, which seemed quite adequate just after the Civil War as at all suited to the current complexities of finance and labor. Yet the useful knowledge of the eighteenth has become the intricate and powerful technology of the twentieth century—and the primitive way of its control has endured (ibid., p. 164.)."

72 Ibid., p. 154.
of civilization to the present steam, gasoline, and wireless. The scientist, engineer, or mechanic of today is simply repeating the ideas of the lever or Archimedes, the gravitation of Galileo and Newton, the electricity of Franklin, and the thousands of ideas of scientists, engineers, and mechanics of centuries of civilization.

And from this broader historical point of view, "the concept of capital," as Mitchell pointed out,

merges into the broader concept of resources—soil and climate, mines and forest, industrial equipment, public health, intelligence and general education, the sciences that confer control over nature, the sciences that aid in developing body and mind, and the sciences that bear upon social organization. 74

This is the concept, the historical process of development, to which the institutionalists attach important significance; it is, indeed, the life-process of the community. And it is independent of the accumulation of financial capital. It was not the rise of the market which brought the industrial economy into existence; it was just the reverse. And though it is true that the market may have facilitated this industrial growth, it may also have impeded it. In any case, it did not cause it.

The Bias of the Market Mechanism

Adopting the view we have summarized above—that the market is not an autonomous, self-equilibrating, mechanism which it is the function of the economist to explain, but is rather merely an instrument for

73 Commons, Institutional Economics, p. 656. This interpretation of the nature of invention and technological progress as summarized above in Hamilton's words, is quite similar to that held by other institutionalists. See, for example, Veblen, Instinct of Workmanship, p. 103, cited on p. 241, above; also, Commons, Institutional Economics, pp. 656-672 and pp. 32bff; also Ayres, Theory of Economic Progress, chaps. vi and vii, and Ayres, The Problem of Economic Order, pp. 5-20.

achieving social goals, the institutional economists have found it
deficient on several grounds. And consistent with their instrumentalist
view, they have insisted that it is the function of the economist
to divorce himself from this mechanism, to criticize and evaluate it
as an instrument of social organization—to declare a partial inde­
pendence from the market, as Clark put it. Clark once pointed out that
the economist, in his professional capacity, is, by the traditional
view, supposed to maintain a neutral position on the question of social
goals, that he

... should ignore the ends of life, refusing to ask
what people want or need, and considering only the
economic mechanisms for promoting their attainment
of whatever ends they do pursue.

This position of neutrality with respect to the goals and needs of
society is, in the view of the institutionalists, inconsistent with
their interpretation of the market and the function of the economist,
for

This assumes that the instruments—the economic mech­
anisms—are themselves neutral; and the trouble is
that they are not. The economist's chief mechanism—the market—cultivates certain kinds of needs and neg­
lects others. It is biased; and if the economist
limits himself as suggested, he is accepting the bias
of the mechanism. The correction of the bias is then
left to others, without the help economists can give
in what is properly a joint undertaking.75

Thus, in addition to criticizing the effects of the market with respect
to the distribution of income and the putative powers of industrial
development, these economists argue that the market itself is biased
and that it is the function of the economist to help correct that bias,
to show the effects which the market perpetuates on society, to show

75 Clark, Alternative to Serfdom, pp. 9, 10.
the social needs and goals which the market ignores or neglects.

It was in this connection that Mitchell pointed out that all the market can do is to give effect to short-run, private, wishes, and that this may be "exceedingly unwise on the basis of long-run public interests." The market, Mitchell insists, is not only wasteful of our natural resources, but is even more wasteful of our human resources. This is the same criticism Clark levied at the market as it has functioned, for individuals are so molded in their "body, mind, and character" by their economic activities and relations, by the freedoms and servitudes which are imposed upon them,

... that industry can truly be said to make men and women who work in it no less truly than commodities it turns out for the market. These human effects of industry are, in the long run, its most important products, and yet, as we have seen, the demand for this class of product is very inadequately expressed in the bargainings of the industrial market. These different aspects of industry are, moreover, not separate things but interdependent. Industry as a molder of character cannot be adequately studied apart from the question whether the quota of material goods it furnishes spells privation, comfort or luxury.77

Clark also noted that while the market may equate the products of two different factories, he contends that this is a social fallacy when one of them is built "with an eye to such beauty as circumstances permit and operated so as to give workers an opportunity for growth, while the other furnishes an environment of unrelieved ugliness and a large percentage of 'dead-end jobs.'"78 This is the same shortcoming of the traditional market-oriented analysis which Commons also noted--that

77 Clark, Social Control of Business, pp. 46-47.
78 Clark, "Toward a Concept of Social Value," p. 46.
while the principle of "least-cost combination per unit of output" is significant for the private management of a firm, it "leads to social fallacies," and this discrepancy must, therefore, be recognized "in order to move from the private to the collective or social point of view."^79

It is this collective or social point of view which these economists emphasize, and in particular, the welfare of the collective or social group. The market mechanism, as it has operated, has not, in their view, adequately promoted the welfare of society and it is the function of the economist to point this out, to show where collective or social action is necessary to modify or alter the market mechanism. There are three general areas in which they agree that the market has not achieved this social welfare, three areas in which collective action is required in order to achieve those social objectives of which the market is incapable. One is the instability inherent in the modern industrial economy; a second is the social costs of industry which the market ignores; the third is the inadequacy of the market as a measure of human needs, or of social welfare.

Clark wrote rather extensively on the problem of instability, or what is more commonly called the business cycle, pointing out repeatedly that this was one problem which arose due to the operation of the market mechanism, and for which there was no answer within the strict limits of an automatic, price-equilibrating, market. Thus, most pointedly, he noted that

This brings us face to face with one of the basic faults in the "price system" as it actually operates: namely, recourse to idleness if production will not cover "costs." When costs represent not what the productive resources are worth under existing condition

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^79 Commons, Institutional Economics, pp. 276, 277ff.
but what they would be worth under more favorable conditions than actually exist.  

Clark points out that judged by the market, a three dollar wage for making shoes ought to mean that there are other opportunities for which this day's labor could be used to produce something worth three dollars. But if the worker stands idle because he is not worth three dollars per day for making shoes, it simply means that the alternative is not available.

Under these conditions, to act on the assumption that shoes are not worth producing unless they will cover the three-dollar wage is false social accounting, flying in face of the elementary fact that anything produced is that much more than nothing. It stands in the way of our making the best available use of our productive resources, whatever that use may be, by insisting that they shall not be used at all unless their use will cover "costs" which changed conditions may have rendered, for this purpose, arbitrary and misleading...

Under these conditions, it is inevitable that productive resources should go to waste, with the further result that they create no purchasing power to buy the products of other productive resources.

To argue, therefore, that shoes, or any other commodity, are not worth producing because the market has so decreed, is to fail to recognize that the market cannot accurately register all social forces, cannot at all times autonomously organize the community's resources. Financial bookkeeping for the individual firm, relying on the dictates of the market, says that goods at such times are not worth to society what it costs the firm to produce them.

\[\text{Socially speaking, this is a fallacy; a pecuniary fiction. Goods are worth producing whenever there is a waste capacity which could be used to produce them; and the utilizing of this waste capacity costs the community substantially nothing, no matter what it may cost the}\]

\[\text{80Clark, "Productive Capacity and Effective Demand," pp. 123-124.}\]

\[\text{81Ibid.}\]
Thus, no matter what it may pay the individual employer to do under these circumstances, the community cannot follow the same line of reasoning. The individual employer of course can only organize his costs and income in accordance with the market; the community can alter the market in whatever way it chooses. Though it would cost the firm three dollars to produce the shoes, it would cost the community "substantially nothing." All of which, Clark noted, is a rather "involved way of saying that idleness is waste" and that anything that idle labor is able to produce is "better than nothing." "Perhaps," added Clark, the entire argument would be superfluous but for the fact that economics and business are both committed to judging whether goods are economically worth their cost according to the financial expense involved under existing forms of contract.

That is to say, they are judged as to their worth according to the price system and the market mechanism; this, however, is a social fallacy, a pecuniary fiction. It is a fallacy and a fiction, because it assumes that what is true for individual firms is therefore necessarily true for society--that social or collective action can do more than the individual. In another and more elaborate treatment of the same subject, Clark argues that while the individual firm is faced with the problem of fixed and variable costs, from the social point of view, nearly all ultimate costs are fixed. We shall return to this point shortly, but it is interesting to note in the present connection that

If ultimate costs are nearly all overhead it follows that it would pay for industry as a whole to keep go-

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83 Ibid., p. 59.
ing rather than stand idle, even if the product were worth next to nothing. And yet any serious drop in prices is the signal for widespread slackening of production. Industry as a whole is unwilling to treat its expenses as overhead and act accordingly.\footnote{Clark, Studies in the Economics of Overhead Costs (Chicago: University of Chicago Press, 1923), p. 27; cf. also \textit{ibid.}, pp. 402 and 434ff.}

As a result prices are frequently high enough to shut off the production and sale of goods which are economically worth producing, for the community.\footnote{\textit{Ibid.}, p. 449.}

Industry, however, cannot act as a whole, because each firm must act individually as the market dictates. It is only through some form of collective action that the market could be circumvented in such circumstances.

Writing also on the problem of the business cycle and the efficacy of the market in handling that problem, Mitchell noted that although the "immediate pecuniary hazards are borne by the shareholders," it is only to the extent of the financial sums which they have invested and they are thus able to "throw a large part of the business-cycle hazard upon the employees."\footnote{Mitchell, Business Cycles: The Problem and Its Setting, p. 157.} And Clark, elaborating on the same matter, pointed out that we would not think of relying upon the market and the traditional principles of individualism to provide for the victims of such natural disasters as the San Francisco fire. In the same manner, we should properly apply the same principles "to the victims of our wholesale economic changes and upheavals," with the added emphasis that the industries which cause economic upheavals have an "economic obligation" which the market does not allocate.\footnote{Clark, Social Control of Business, p. 154.} Ayres also noting the discrepancy between the actions of the firm within the market and the inter-
ests of society, pointed out that the problem of depression and the functioning of the market

... involves the question whether the cost of a depression is one of the irreducible costs that industry must bear. Is a contingency fund a legitimate cost; and if the contingency for which provision is so made is a depression, does this mean that the cost of weathering a depression is a legitimate cost?88

From the financial viewpoint of the individual firm, it would perhaps be reckoned a legitimate cost, but it is not a legitimate social cost in the sense of a necessary cost of production.

It is not, however, only during the time of depression that the market fails to register true social costs, for the market price does not include "robbing neighbors of their light and air, obstructing the streets, fouling streams, increasing or destroying the beauty of the landscape or the business character of the neighborhood, admitting tenants whose very presence destroys the value of other real estate in the adjoining blocks, etc., etc."89 It was from these deficiencies and shortcomings that Clark concluded that "if economics merely accepts and records the outcome of the market as representing the effective social importance of that particular commodity, there is still something lacking."90

Thus, not only does the market lead to social fallacies in deciding what and when goods are worth producing, but the costs and the hazards of that production, the costs and hazards of the business cycle, are not fairly allocated. And even in prosperous times, not only do we

89 Clark, "Toward a Concept of Social Value," p. 45; cf. also Clark, Social Control of Business, pp. 41ff.
90 Clark, "Toward a Concept of Social Value," pp. 54-55.
have unused capacity, but the market is unable to reflect the true social costs of production. Society as a whole suffers from having supposed that the price system and the market mechanism accurately registers social needs as related to social abilities. It is, in short, a total loss, but a loss which is unavoidable so long as the market is regarded as the sovereign governor of the economic system. These defects cannot, as Ayres said, "be removed by simply allowing the 'forces of supply and demand' to do their work." 91

What is required, in the opinion of these economists, is a fresh approach, one which recognizes that such problems can be solved only by abandoning the traditional view of the market and the price system. As Clark put it, what is required to meet this "common peril of depression" is some "common organization" which can exercise control as a "collective organism" over the strategy of the individual business firms. It cannot be achieved by the traditional view, simply allowing each individual firm to operate within the matrix of an autonomous price system and market mechanism. And Clark added that if "prediction in social matters is ever justified," it is very likely that "some day such a vehicle of statesmanship will be a reality.... With such an organization in existence, social cost-keeping would gain a definiteness which is hardly possible today." 92

A valid concept of social cost-keeping would necessarily recognize the existence and importance of the fixed social costs which the market is unable to take into account. The most important of these is the fixed cost of maintaining the population irrespective of whether the

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91 Ayres, The Industrial Economy, p. 348.

market finds it profitable to provide employment or not. From the broader social point of view, there is a minimum maintenance which must be borne by the community whether people work or not, or the community as a whole will suffer irreparable damage. Thus Clark pointed out that when labor is not employed, "its cost does not disappear; it changes form... the overhead cost of labor is a collective burden upon industry in general, but the market does not allocate to each employer the share for which his own enterprise is responsible." As the individual firm, operating within the confines of the market, sees it, labor is simply a variable cost, but from the social point of view, this is incorrect for the social cost of labor is fixed, it does not vary with output. Labor requires a maintenance that does not differ vastly whether the individual works or not and "thus, we may say that most of the ultimate costs of labor to the laborer and to the community are constant costs and that they are translated into variable costs to the employer by our customary system of wages...." As Clark pointed out, when the laborer is out of work, the community must still bear the cost of his maintenance or there will be a "still heavier loss." This is the penalty which orthodox economics and the price system have exacted from society; they have served the interests of the machines, have directed "attention to the bribe the offer and away from the conditions they exact"; they have neglected to "assume the burden of human overhead costs" by assuming that labor was a variable cost since it was seen as such by the individual firm. Clark, never the radical, did not advocate

93 Cf. Mitchell, p. 279, above.
95 Ibid., p. 463.
"revolting" against the machines, but he did insist that man should "aspire" to a "reasonable degree of racial equality" with them.\textsuperscript{96}

This racial equality would require a considerable change in our traditional views of the market and its function, however. But in Clark's opinion, the basic subject-matter is at hand in the realization that economic welfare depends upon the state of the whole economy, upon the condition of the "social organism" which is "an active reality in its own right rather than the mere passive by-product of individual profit-seeking" within the domain of the market. "All in all," Clark insists, "the parts of our system are united, not by arithmetical addition nor by the mechanical composition of forces, but in that more thoroughgoing fashion characteristic of the parts of a true organism."\textsuperscript{97}

There is no question, for example, but that labor does constitute a fixed social cost; the important question is "as to the best distribution of the burden--the best form of social cost-accounting."\textsuperscript{98} This cannot be done simply by leaving it to the market and the customary form of business accounting. It must necessarily begin with a "revising of the market's reckoning of costs and values in the light of fuller social accountancy"; we must recognize and be ready to correct through collective action those problems which the market either causes or cannot itself correct--the problems of "uncompensated costs, of unpaid services, of unused capacities, and of conservation";\textsuperscript{99} we must recognize that

\textsuperscript{96}Clark, "The Socializing of Theoretical Economics," The Trend of Economics, pp. 99-100.

\textsuperscript{97}Clark, Studies in the Economics of Overhead Costs, pp. 403, 478.

\textsuperscript{98}Ibid., p. 384; cf. also ibid. pp. 15, 362, 376, 465, & 484.

\textsuperscript{99}Clark, Social Control of Business, pp. 158-160; also ibid., pp. 154-158.
there are many social and human needs which the market neglects, social
and human needs which are, however, truly economic and which are within
our collective ability to meet.

The institutional economists have examined the market—both the
theory of a market organized economy and the actual results—and have
found it deficient on both counts. In particular they find fault with
the fact that there are many wants and needs, within our ability to
meet, but that "left to itself, the market will neglect many of them
disastrously."100 Through collective or social action, the market
must be made into a better social instrument to satisfy those social
needs which the economic system is capable of achieving. But to date
the economic system has not achieved even its potential because we
have assumed that the market and the price system were the sine qua
non of the economy. And it has therefore failed us. As Mitchell
pointed out,

A vast number of American families ... are underfed,
inadequately clothed, and poorly housed, even in a
good business year like 1926.... The American popu­
ation has vast unsatisfied needs, judged by the
criterion of physical efficiency—not to speak of
desires.101

And yet this modern industrial economy is capable of meeting those
pressing social needs. Referring to two separate studies of our pro­
ductive potential, Mitchell noted that "our economic organization fails
by a wide margin to secure the full use of our productive capacity
even in years of business activity,"102 and Mitchell is therefore un-

100 Clark, Alternative to Serfdom, pp. 21-22.
101 Mitchell, "Engineering, Economics and the Problem of Social
The two studies referred to are the one mentioned earlier, Economic
willing to accept the results of the price system as being an accurate measure of the social significance of the goods which are produced—or more importantly, of those which are not produced. Thus he finds fault with the economic system, insisting that "it can hardly be argued that the goods that pay the best are the goods the most needed" when under the present institutional arrangement, "many cannot buy things required to maintain their efficiency or to give proper training to their children." This being the case, the economic system could hardly be called efficient because Mitchell holds that the "ultimate test of efficiency is that of satisfying the most important social needs in the most economic manner." And when the economic system is capable of providing the goods and services direly needed by millions of families but does not do so, then it is not satisfying those most important social needs. It was on this ground that he appealed to engineers and social workers, as well as to economists, to find some way of "enabling the millions of families which need more goods to buy the surplus products which are the nightmare of the business men, plus the additional goods which hover" in the day dreams of the engineers.

Ayres also criticized the functioning of the market-controlled economy which operated at a capacity far below its potential even in prosperous years and which with "existing plant and manpower" could have produced enough to have provided a minimum income of $2500 per


family in 1929. Hamilton likewise argued that even allowing "in all things human concessions must be granted to inefficiency and waste," and that some "indulgence must be allowed to an imperfect foresight," it nevertheless seems inescapable "that the economic order yields far less of the wherewithal of living, leisure, and opportunity than even as a minimum we have the right to expect from it." The goal of industrial activity is "obviously an enlargement of the material means to human welfare," but it has not yet provided the minimum of which it is capable, and which we have the right to expect. Tugwell noted that this minimum which people do have the right to expect is not very much—they "do not ask much from this world in which they find themselves—no more, at least, than ought to be guaranteed them by our resources and achievements." Among the minimum which they do have the right to expect from our economic system are "security of access to the goods of simple living, security of employment, security in ill health and old age, security of maintenance and training for their dependents...." Tugwell adds that "with an equipment adequate to this purpose," the reason why this "minimum security still remains conspicuously lacking" is to be found in the "economic and political organization" within which our industrial machine must operate. To obtain these goals, however, requires a re-orientation in our thinking in the "substitution of social for individual interest." They cannot

105 Ayres, *The Industrial Economy*, pp. 159, 270.
109 Ibid., p. 112.
be achieved so long as many of the present institutions remain in operation.\textsuperscript{110} We must recognize that "industry is a social instrument" which if we are willing to experiment with it, if we are willing to undertake the rather difficult task of directing this "social instrument" to the uses and needs of man, "holds definite promise for the future." It can provide that minimum of security for all; it can indeed be the means of true freedom for all.\textsuperscript{111}

\textbf{The Problem of Values}

Orthodox economics has made exchange value the central feature of its theoretical analysis, rather than the conducive value of industry to increase the community's well-being. And quite rightly so, if it is assumed that the way to achieve the highest level of well-being is by means of the market mechanism wherein a vast number of individuals each seeks his own self-interest—individuals who are by nature, lazy, selfish, and who make all their decisions after careful and cool deliberation. But if these premises are dropped, then the only alternative is to attack the problem from a quite different angle. The institutionalists have dropped these premises, as we have indicated in the above chapters, and it is on this basis that they have approached the problem from a different orientation. They have thus approached the whole question of value from a different set of ideas than the orthodox economist has. They do not see the price system as registering value, for they are primarily interested in value to society, not in the relative value of bread versus cake to the individual. They are interested in value

\textsuperscript{110} Cf. \textit{ibid.}, p. 178.

\textsuperscript{111} Tugwell, "Experimental Economics," \textit{The Trend of Economics}, p.422.
to society as a "social organism," as a "going concern." And the central problem of this social-value economics, says Clark, "is the organization of the economic forces of society to get and to do the things that are wanted." But Clark emphasizes that this theory of social value does not stop with the mere summing up of individual values; the more important question is the "value to society as a whole, independent of market valuations." And as Commons also argued, economic theory should provide both a foundation for social prosperity and at the same time a policy to achieve that social prosperity. He also emphasized, "the theory of value that fits such a theory of prosperity is a theory of a process and not an attribute; value must therefore be conceived as a "verb instead of as a noun" since "a nation is a going concern, a process that has no beginning and no ending...."

Thus a "theory of value" which is "sufficient for the needs of modern action must be relevant to collective action" rather than to the "isolated assumption of self-interest," to the endeavor of man to control nature rather than to submit to it.

Values are relative to and derived from the total social organization. Freedom, for instance, is not an unalienable right of man, it is a social achievement created and expanded by collective action. In

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113 Clark, "Towards a Concept of Social Value," pp. 49, 54, 65, ad passim.
115 Commons, Economics of Collective Action, pp. 124, 150, 180, 196; and Institutional Economics, p. 761.
the same instrumental sense, truth, as we noted in Chapter Five, is not the result of a self-consistent deduction from given premises; the truth or value of an idea can be known only by putting that idea into practice. It is in this sense that Ayres holds that truth is a synonym for continuity and that this is also the meaning of social value—it means "continuity, literally; and that is its sole meaning." And the continuity to which it refers in the social-economic sphere is that of our industrial or technological continuity. If economic value means anything at all," says Ayres, that meaning from the social point of view can only be "the continuous realization of a more effective organization of the technological life-process" of the community. "Ours must be a continually expanding economy," Ayres argues, because "population is continually increasing, and technology is continually progressing." This means making the best possible use of our industrial organization, our resources—both human and natural—, our know-how and understanding, in order to provide for the continued growth of the economic welfare of the total social group. This is the meaning of value to society, but the achievement of this is, as Ayres warns, a "difficult and complicated" process; it is "subject to continual error"; it achieves significance "only by virtue of continuing verification and correction." But this is what we "must do and do continually better—technologically better—if we are to continue and exceed the achievements of the past." Our task, added Tugwell, is "to mold

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117 Ibid., p. 228.
our social and economic environment so as to reap the largest possible rewards." To do this, however, "we cannot sit and wait. We must act and we cannot act without planning."

Thus it is the duty of the economist to show where the economic system is breaking down, to show where the institutional fabric of modern society is no longer adaptable to today's needs and today's abilities, to show where it is not performing as it could, where it can be improved. It is the function of the economist to show where certain institutions—such as the price system, the market mechanism, the resultant maldistribution of income and tendency toward over-saving, the neglected social needs,—are a positive hindrance to the welfare of the total social group. It is central thesis of the institutionalists that the economic system is but a part of a larger developmental, evolutionary, process—the life process of the community. Since that process is in fact going on, we are confronted with the alternatives of a planless or planned, a vegetative or intelligent, growth and development. The institutionalist views himself as an active participant in this developmental process—a critic, a reformer, one who is trying to make use of his knowledge of the economic system to continue and to improve that process.

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120 Tugwell, Our Economic Life and Its Problems, p. 541.
CHAPTER IX

THE CONCEPT OF ECONOMIC PLANNING IN INSTITUTIONAL ECONOMICS

The Nature of Economic Planning

It is the major thesis of this study that the unifying characteristic of the institutional economists is their attempt to convert the science of economics into a tool for the improvement and reform of the modern industrial economy; and further, that this concern for economic planning is not fortuitous but is the logical result of their common views and assumptions on various aspects of economics and related social sciences—the common views and assumptions which we have examined in the previous eight chapters. As these economists see it, economic planning is an inherent and necessary part of today's industrial economy; it is also the logical counterpart of economic theorizing. As we have shown in the pages above, they view the economic system as a social phenomenon, and they further view knowledge as a useful, functional, tool. Economic theorizing is therefore useful only to the extent that it can be used—and if it is to be used, its primary purpose should be to make the economic system work better. This means, in their view, the active intervention through collective action to ensure the continued growth and development of the industrial economy.

In this respect, they are clearly the descendants of Thomas Robert Malthus rather than of David Ricardo, of whom the mainstream of economic theorizing is the progeny. Malthus, whom Commons often referred to as the founder of institutional economics, once argued that in the area of political economy,

There is scarcely any inquiry more curious, or, from

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its importance, more worthy of attention, than that which traces the causes which practically check the progress of wealth in different countries, and stop it, or make it proceed very slowly, while the power of production remains comparatively undiminished, or at least would furnish the means of great and abundant increase of produce and population.¹

Ricardo, friend and critic of Malthus, succinctly stated the difference between his view of the science of economics and that of Malthus:

Political Economy you think is an enquiry into the nature and causes of wealth; I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation. Every day I am more satisfied that the former enquiry is vain and delusive, and the latter only the true object of the science.²

This surely states the development which orthodox economics has taken—the search for the eternal and universal laws of distribution and of value. The institutionalists, however, have followed Malthus, arguing that it is the function of economic theorizing to show how the economic system can grow and expand, how it can be made to function more effectively for the community-at-large.

The institutionalists have, as Gruchy recognized, felt called upon to use their accumulated knowledge about the economic system as a tool


²Ricardo, David, Letters of David Ricardo to Thomas Robert Malthus 1810-1823, ed. by James Bonar (Oxford: The Clarendon Press, 1887), p. 175. It is interesting to note Keynes' comment on Malthus: "If only Malthus, instead of Ricardo, had been the parent stem from which nineteenth-century economics proceeded, what a much wiser and richer place the world would be today! We have laboriously to rediscover and force through the obscuring envelopes of our misguided education what should never have ceased to be obvious." (Essays in Biography, London: Macmillan, 1933, p. 144.)
for social and economic criticism, for economic planning and reform. They conceived economics to be a functional science and economists should, therefore, translate their economic theory into some form of action which will contribute to the solution of social-economic problems. As we noted earlier, in the view of the institutionalists, the basic issue is one of automatism versus human control and direction. They reject the idea of an autonomous, self-equilibrating, market mechanism which will solve all economic problems. They argue that societies have always planned, have consciously intervened to promote the economic welfare of the social group. Thus, laissez faire was planned— it was not a natural nor an inevitable condition; it was, rather, a particular institutional arrangement which had to be implemented through collective action. The same was of course true of free competition. Whereas the earlier economists looked upon laissez faire as the means by which free competition could be achieved, later economists came to recognize that a hands-off policy would not necessarily ensure such a state of affairs. And thus the means, the policy, was abandoned in favor of a different form of collective action designed to achieve a competitive economic order. Both of these, in the view of the institutional economists, were examples of economic planning. They are not, however, sufficient for today's economy.

It is with today's industrial economy that the institutionalists


4Cf. pp. 117-126, above.

are concerned, and having a strong pragmatic bias, they have directed their attention to the ways in which this industrial economy might be improved. They are in this respect somewhat different from most of the orthodox economists, for they have insisted that it is their function to point out to the community what can be done, not merely wait until someone asks what to do. Thus Ayres cited the problem of inflation, pointing out that if economics must wait upon the will of the community,

then it is impossible to say that we "should" check inflation. The most the economist can say is that if the community decides to check inflation, such-and-such are appropriate and effective measures for achieving that end.\(^6\)

It is this position with which the institutionalists disagree; they insist that it is the function of the economist to point out when inflation, for example, is a serious social-economic problem, what the consequences of it are, why it is undesirable, and that it should be stopped by certain specified measures. Thus also with the case of economic planning. The argument that the economist should not concern himself with planning, if the business community and the public in general are opposed to any planning because they fear that such measures as a redistribution of income, or an increase in the national debt will lead to the degeneration of the economic system, simply says that the public has its misconceived prejudices and the economist can do nothing but abide by them. The institutionalists maintain that quite to the contrary, it is his function to point out the error in their thinking, to point out better ways of carrying on economic activity. The

economist should be a critical appraiser of the present industrial and institutional scheme and recommend changes where, in his view, they are needed. As Tugwell noted in the 1920's:

The economists of the new generation are making tentative proposals which they believe to be hopeful, but which they desire above all to see tested and verified or disproved. If the suggestions prove to be good they ought to be put into practice; and not only put into practice but also become a part of our codes of conduct.\(^7\)

Among these "economists of the new generation," was Commons, who devoted a major part of his work to analyzing and probing into industrial strife, labor relations, workman's compensation, etc. And Mitchell emphasized the crucial importance of statistical research and attempted to shed some light on the riddle of the business cycle, while Hamilton turned to sick industries and the efficacy of the patent system, Tugwell himself to the problems of planning in the overall sense, and to agricultural problems in particular, Clark to the problems of unpaid costs, of social costs of production, the business cycle, the inadequacy of the market mechanism, and Ayres to the problem of depression and war and to the factors connecting the two. They are committed to the thesis that the growth and development, the progress, of the economy, and the material well-being of the community-at-large, are their primary concern and that these can be realized only by a "constant re-examination of ideals and constant redirection of social forces toward their attainment."\(^8\) Thus Clark, concerned with the problem of unused capacity during prosperity and the inordinate waste of man-power, resources and machinery during depression recognized that "modern

\(^7\) Tugwell, "Experimental Economics," The Trend of Economics, pp. 419-420.

\(^8\) Ibid., p. 421.
society can no longer acquiesce in this misuse of the powers which nature and science have bestowed upon it. Such conditions, Clark argued elsewhere, are the "result of the unplanned character of our economic system" and to cure this social malady, we must "introduce comprehensive planning into the scheme of controlled private enterprise." It will not suffice to put faith in the unregulated and uncontrolled market to achieve either a stable and prosperous economy, or to provide the impetus necessary for continued growth and development.

Society long ago abandoned such faith and it is the function of the economist, therefore, to concern himself with the problems of social control, of social direction, planning and reform, of collective action directed toward the guidance of the economic system. Thus Clark insisted that we are "living in the midst of a revolution"; a revolution which began with the industrial revolution of the mid-eighteenth century and which has culminated in the efforts of society to control today's industrial economy. "This many-sided movement toward control cannot be disregarded," says Clark.

Even those who are honestly opposed to it realize that they cannot simply forbid this tide to rise. It may be guided and directed, its movements made more informed and enlightened, but it cannot be stopped, and no one group can dictate its course. It is the inevitable result of many causes, centering, however, in three things. One is organized large-scale production, another is the growth of democracy, and the third is the growth of science and the changing attitude of the human mind itself toward the world at large and toward human organization in particular, especially the scientific attitude toward social

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10Clark, Social Control of Business, p. 455.
institutions which has been developing slowly throughout this past hundred and fifty years.

This attitude regards institutions as means to ends. ... their course is subject to some degree of direction, and man is continually calling on them to justify themselves by their results, and trying to improve them where they do not meet this test.11

And Mitchell in the same vein recognized that

The course of wisdom is not to oppose national planning, but to make that planning more intelligent. The more clearly any man grasps the enormous difficulties of the task, the more sharply he realizes the harm done by poor planning, the keener he should be to promote intelligent planning: for national planning of some sort, or rather of sorts, we are certain to have.12

The institutional economists, recognizing the necessity of such intervention, have set about to show how it can be done better, to show the interrelatedness of the social and economic facets of our highly complex life, to show that the choice is not one of unregulated private enterprise versus complete governmental ownership or control, but a varying and changing mixture in between which is dependent upon changing times and circumstances. Theirs has been, as Clark noted, a recognition that

measures of control are neither attempts to discover and establish the ultimate right system, the goal to which all human progress hitherto has been tending, nor are they attempts to cure permanently the evils of industrialism or establish a fixed and stable balance of power between opposing principles. They are merely the next step in this unpredictable evolution.13

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11Ibid., pp. 4-5.

12Mitchell, "The Social Sciences and National Planning," p. 100; cf. also Tugwell, The Industrial Discipline and the Governmental Arts, pp. 499ff, for an elaboration of these points concerning the possibility and the necessity for the social control of the modern economy.

13Clark, Social Control of Business, p. 33.
The issue is between the functioning of an economy which is basically, if not exclusively, guided by automatic forces versus one which is guided by human direction; it is the alternative of a planless or planned, of a vegetative or intelligent, growth and development. The institutionalists have attempted to formulate an approach which will give more insight and understanding for the intelligent guidance of this process of economic growth and development than that which, in their view, has been provided by orthodox economics.

What Kind of Planning

The question as the institutionalist sees it is not if we shall plan, but how we shall plan—for planning, the organized use of intelligence in the control of human affairs, is an inherent part of the whole continuum that sustains modern man. Thus it was that Tugwell approvingly quoted L. L. Lorwin who said that "the planning of the twentieth century rests its case on a philosophical faith in the power of man to promote orderly economic change." The meaning of planning says Tugwell is aligned to co-ordination ... and not to the guidance of a hidden hand. ... The difference between guessing and planning is the difference between laissez-faire and social control.\(^\text{14}\)

Planning to the institutionalist is not the attempt to find the solution to all of our industrial and economic ills in one fell swoop; it is, rather, the organized use of our collective intelligence in the endless series of solving problems of the modern economic system. Tug-

well's basic thesis is that "gradual and experimental change may come to dominate social drift."\(^{15}\) And that

... the solution of the problems of our economic life can be found only through maintaining an experimental attitude toward those problems.\(^{16}\)

And it is Commons' view that "human skill and judgment must take the place of automatism."\(^{17}\) Ayres argues that institutional change is susceptible to intelligent control; \(^{18}\) that we have begun to replace both "social drift" and "automatism" with organized human intelligence. The orthodox economist has of course recognized the necessity of some "interference" with the market mechanism; but it has always been just that— interference. The fundamental supposition being that the market mechanism is the most basic facet of the economy. And it is this difference which Ayres argues is the really important issue; the issue is not between planning and not planning, but in the meaning and the validity of the classical conception of a natural order, or an automatic market mechanism, versus the organized use of human intelligence in the control and direction of the economic system—the organized human intelligence which regards the market as but one of several devices to be relied upon and to be used. As Ayres put it:

The issue is not between planning and dispensing with planning; it is between planning that is dominated by the conception of an economic state of nature and planning that is not so dominated. ... No society ever has been or ever can be "planned." Societies grow and change and will always do so. But in that


\(^{16}\) Tugwell, The Industrial Discipline and the Governmental Arts, p. 542.

\(^{17}\) Commons, The Economics of Collective Action, p. 247.

process of growth and change creative intelligence has always played a part and will do so increasingly as knowledge and understanding grow. Economic planning is nothing more, and nothing less, than the working of this universal law.¹⁹

Economic planning, the institutionalists insist, is not an alternative to capitalism, it is not a question of free private enterprise versus a Soviet-type controlled economy.²⁰ Totalitarian societies are, in the popular view, the chief exponents of economic control and planning, but this is an unwarranted and limited view of the problem with respect to our economy. As the institutional economists see it, the question is one of institutional adjustment and adaptation to make our present system work better, to work better for that which it is traditionally supposed to achieve: expanding production and the increased well-being of the community-at-large.²¹ And the function of the economist, according to the institutionalist, is to contribute to that creative intelligence necessary for such institutional adjustment and adaptation. His function is not to lay out a detailed plan, a "blueprint" of how society is to function, what it is to produce or in what quantities. It is, rather, to use this creative intelligence; it is to use and to add to that body of knowledge and understanding in order to make the most efficient use of our collective resources, to resolve the difficulties which arise in actual social living. As Tugwell once emphasized, "adherence to any plan is not nearly so important at present as the attitude implied in searching for alternatives."²²

¹⁹ Ayres, The Industrial Economy, pp. 189-190.
²⁰ We shall return to a more thorough examination of this question in the next chapter.
²² Tugwell, The Industrial Discipline and the Governmental Arts, p. 227.
The more pertinent course, the more pressing problem, as Clark saw it, is to see what can be done to introduce collective planning into our existing system. This must be done experimentally, with the expectation that measures will change and develop with experience. It does not appear to us important either to safeguard private enterprise for its own sake, or to seek a collective economy for its own sake. What is important is to organize for the purpose of making the best possible use of our resources, and to take whatever measures such organization requires.23

Emphasizing the same point, Mitchell argued that the important concern is "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."24

Seen in this light, the economic system is a continually evolving congeries of social forces; economic planning, then, is simply the adaptation and adjustment of those social forces as the system moves forward; it is the implementation of those steps necessary to ensure that the system does move forward. The central problem is to make the best use of our collective knowledge so as to organize the productive facilities of our economy. It is, as Mitchell pointed out, not an attempt to find the solution to all of our problems in one nice package, but to carry on the various solutions with which the modern society must keep experimenting. "We are bound to be trying experiments in the coming generation," Clark insisted, and

Those experiments may be planned or may be improvised; they may be designed in the integral inter-

eat of the whole or worked out by the pulling and hauling of special-interest groups. And planning is better than pressure-group politics.\textsuperscript{25}

Experimenting we will do. The important question is how that experimenting will be carried out. Will it be carried out with the economists contributing by showing what needs to be done, how it can be achieved, or will it be a continuation of the hit-or-miss, hodge-podge, piecemeal planning which has characterized our attempts in the past?\textsuperscript{26}

Economic planning, Ayres noted, simply consists "in finding technical devices adequate to the solution of the technical problems of the age."\textsuperscript{27} It is by definition "the process of adjustment to continuing change." And it thus contrasts with both stand-pat conservatism and revolutionary radicalism, both of which give expression to ideological dogmas. And whereas "dogmas have a way of becoming obsolete, ... planning goes on forever."\textsuperscript{28} Which simply means that the problems of today's economy are going to have to be solved in light of today's knowledge, in light of today's needs and abilities of our economy to meet those needs. The institutionalists find neither the blueprints of Adam Smith nor those of Karl Marx very useful for today's problem-solving. The physicist of today does not rely upon the theories of the nineteenth century physicist to convert the atom into **electrical** energy, and neither will the economist find the solutions to the social-economic problems raised by that conversion in the writings of nineteenth century economists. Planning, Ayres argued, is "a function of knowing, in eco-

\textsuperscript{25} Clark, \textit{Social Control of Business}, p. 471.

\textsuperscript{26} Cf. pp. 120ff, above.

\textsuperscript{27} Ayres, \textit{The Industrial Economy}, p. 195.

nomics no less than in all other affairs."\textsuperscript{29} It is simply a projec-
tion of the situation in which the problem occurs. Thus, our current
efforts to stabilize and strengthen our economic system are based on
our present knowledge of physical production, changing volumes of
employment, the flow of money income through the economy, the current
volume of saving as compared to the current volume of investment. In-
evitably, any proposals advanced are a function of that knowledge and
of the social needs of the community. They are not once-and-for-all
blueprints for social action, but tentative proposals advanced in an
attempt to solve today's problems. Building a Maginot line against the
depression of the 1930's will not in itself ensure the continued growth
and development of today's industrial economy. In an era of rapid
change, we must continually adjust and adapt to that change--and that
process of adjustment and adaptation, if it is not to be merely haphaz-
ard, is what the institutionalists mean by planning, and that is what
the economist must participate in. Change and adaptation are the very
essence of the life-process of society, but that change and adaptation
must be based upon adequate knowledge, upon adequate understanding, up-

\textsuperscript{29}Ibid., p. 186.

\textsuperscript{30}Few would deny that we are in the midst of a rapid technological
change--which the institutional economists view as the dynamic agent of
social change. The rapidity of that change might well be illustrated
by President Truman's remarks when he participated in the keel-laying
ceremony for the first atom-powered submarine. He noted that it was
1000 years from the first inception of the steam engine to its practi-
cal use, 100 years from the discovery of electricity to its practical
use and only 10 years for atomic energy--a much shorter time in which
society has to adjust to this latest important technological development.
And it is the firm conviction of the institutionalists that we must ad-
just and adapt our institutional environment to just such sweeping
changes. Theirs, however, is not quite the adjustment of the U. S. Cham-
ber of Commerce when it reassured its members that since "this energy
cannot at once be used for purposes other than destruction, immediate
jeopardy to our economy is not in sight." (Quoted in Girvetz, \textit{op. cit.},
p. 120.)
on premises which look to knowledge as a useful tool for social action and control.

It is thus that the institutionalists have long advocated more thorough research, better statistics, better empirical data concerning physical production, flows of money, price levels, volume of employment, etc. If we are going to plan, then we need to know a great deal more about the economic system, its problems, shortcomings, areas of potential expansion, unused capacities. Mitchell, for example, insisted that in his view, "the real importance of economics derives from the contributions it may make to welfare." If, however, it is to contribute to welfare, economics will necessarily be involved in action, rather than mere contemplation—and the real trouble is that the economist may "urge action" before he has "acquired sufficient knowledge" of the problems involved. It was because of the importance of welfare and the importance thereto of a knowledge of the problems involved, that Mitchell insisted that "careful deliberation and thorough realistic research are certainly called for before we assume the responsibility of giving advice in the name of science." The institutionalists have long emphasized the importance of statistics and research, they were

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31 Of. Chapter Five, above.


33 Mitchell is of course best known for his pioneer work in statistical studies for the National Bureau of Economic Research, as was Commons for his exhaustive investigations of labor and industry for various industrial commissions; a brief perusal of the 31 page bibliography appended to The Economics of Collective Action will give some indication of this interest. The other institutionalists also contributed to this development, particularly by pointing to the need for better and more thorough investigations. Cf, for example, Tugwell, The Industrial Discipline and the Governmental Arts, pp. 21ff, and Clark, "Long-Range Planning for the Regularization of Industry," pp. 25ff; and Clark, Social Control of Business, pp. 465-471.
long ago advocating extensive studies of the American economy, not merely descriptive ones, but analytical investigations seeking to identify causes and effects, seeking to ascertain what was the actual condition of the economy and areas for improvement. The important point is that such investigations are necessarily predicated on the supposition that a better knowledge of the actual conditions of the economy will lead to better measures for the guidance of the economy—a supposition that could hardly be entertained so long as the economy was to be left to itself, left to function as the result of a multitude of individuals each seeking his own self-interest. The institutionalist thus argues that "the more we know of what is actually going on, the better prepared we are to deal with our problems realistically and the more likely we are to try to do so." Commons, in particular, pointed to the necessity of investigation and research to discover which, among the thousands of cooperating factors, is the "limiting" or "strategic" factor that is obstructing the smooth and efficient operation of the economy. Economics, Commons argued, must inquire into "what extent that limiting factor can be, and requires to be, controlled in order to facilitate the mechanism and accomplish its purpose." And Clark recognized that this method of controlling industrial activity, "via the strategic factors which govern its course, in itself is nothing new." We have long practiced this with respect to the monetary system, in banking and credit policies, public expenditures, antitrust policies, etc.

35 Commons, Legal Foundations of Capitalism, p. 377; see also Economics of Collective Action, p. 180.
36 Clark, Social Control of Business, p. 468.
Some of these policies, however, have been misconceived, in the opinion of the institutionalists. They have been misconceived because they have failed to recognize what it is that is being limited. Traditional economic policy, founded in orthodox economics, looked to competition as the end of most economic policy. Large concentrations of industry therefore were viewed as an impediment to the realization of a competitive economy. They were, then, the limiting factor and thus the factor to be removed by various antitrust policies—policies which were designed in large part to break up any large industrial aggregation. It is this sort of policy which the institutionalists have criticized. This reaction—"the attempt to smash all combinations and to return to what was then believed to be the most desirable basis" for economic organization and control, that of "free competition in industry" was, in the view of Tugwell, not the correct answer. The trend toward industrial concentration, Tugwell argued, was the result of powerful industrial and technological impulses and he therefore insisted that it was "a rather foolish public policy to go on with attempts to smash business because it is big, instead of trying to take advantage of its bigness for the general welfare." So far, according to Tugwell, "our social policy has failed to recognize this movement and to formulate a means of turning it to the account of social progress." We have not yet recognized the potentialities of it, we have as yet found no way of utilizing the gains to be made from it.

37 For a more thorough treatment of the role and function of competition as viewed by the institutional economists, see pp. 28-35, above.

38 Tugwell, American Economic Life, p. 317.
We "can only fear and strike blindly at what is feared. We still think in terms of the badness of bigness, and in doing so we neglect to secure the benefits of bigness." And Mitchell, emphasizing the same point also noted that

We are afraid of that very process of integration among industries which is necessary to make them mechanically efficient, and rejoice when our government dissolves the Standard Oil Company and forces the packers to give up their side lines, though by so doing it increases systematic waste. Economists must attack this whole problem of combining protection to the consumer with organization of production on a scale larger than is yet attempted.

Tugwell therefore argued that the reality of industrial and technological development has been an "immense growth in the scale of operations," but in face of this, the dominant design of our public policy has been the "attempted enforcement of the universal petty conflict which was once characteristic of small-scale, one-man business," and it is thus that "the separation of theory and reality becomes apparent." We have failed to adjust and adapt to this new industrial condition because we were still thinking in terms of a dogma—that of the invisible hand of competition. Instead of investigation, in an attempt to ascertain wherein social gains were to be realized from an expanded scale of operations, we simply tried to apply the answers learned (only too well) in a former era.

There are other possible answers, however. Ayres, for example, argues that the correct answer is "not one of breaking up those organizations but of extending their basic principles to the entire

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39 Tugwell, The Industrial Discipline and the Governmental Arts, p. 132.
41 Tugwell, The Industrial Discipline and the Governmental Arts, p. 217.
economy. " By this, he means the extension of the same principles of efficient organization which have made possible the size and efficiency of the individual units to the relations between these individual units. Thus, for example, with the practices of bookkeeping and inventory:

It is such things as the cash register and the filing system that make large business organizations possible. What we need, obviously, is a system of cash registers for managing directors of the same sort as they impose on their subordinates. But this raises a larger question of the "inalienable right" to privacy. In spite of the fact that business men deny any such pretensions on the part of their subordinates, not to mention "public servants," they are ferociously indignant at any suggestion that their own much-touted consecration to the service of the public carries any obligation to submit their acts to public scrutiny.

But obviously they have no case. It is ridiculous to suppose that opening the accounts of great corporations to public inspection is a violation of the personal privacy for which free men fought. 43

The important point, according to Ayres, is that

If full knowledge of everything that goes on in the economy is an indispensable condition to the efficient organization of that company, it is no less true that full knowledge of everything that goes on in the economy is an indispensable condition to efficient organization of the economy. 44

Ayres is simply arguing that we can make a start toward attaining the benefits of industrial integration, which Mitchell and Tugwell called for, by insisting that the activities of the business concerns be made public. As a step in this direction he advocated a system of grade-labeling to ensure the honest representation of products. Another

42 Ayres, The Industrial Economy, p. 396.
43 Ayres, Theory of Economic Progress, pp. 254-255.
44 Ayres, The Industrial Economy, p. 397.
important measure would be the standardization of financial accounting and the opening of business accounts to public scrutiny. It has often been said, Ayres noted, that large corporations are obliged to keep three sets of books—one for their own information, one for local tax authorities, and one for purposes of income taxation. But, as Ayres sees it, it is this sort of secrecy that ails the modern industrial economy, and he argues that the whole problem would be vastly simplified if "all business men could be obliged to tell the simple truth about their investments and their equities and their intercompany charges for 'services'...."

This would of course be a difficult and complicated undertaking, but, in his view, "it is certainly not impossible. On the contrary, many steps have already been taken in that direction, steps which any student of economics could enumerate." Thus he cites food and drug regulation, and the standardization of accounting practices in the railway industry. The difficulty which has prevented us from going further in this direction has been our preoccupation with an outmoded dogma which...

... has confined the whole discussion to the alternatives of monopoly versus competition and bigness versus littleness. Since financial bigness is in large measure (though by no means altogether) a consequence of the steadily increasing technological scale of production (including transportation and communication) we have been forced to make terms with it; but even so the terms we have made for the regulation of great financial power have attempted only to simulate competitive conditions.45

The problem of big business and of big industry will not be solved so long as we confine the alternatives to monopoly versus competition or bigness versus littleness. We must, the institutionalists argue, be-

45 Ayres, Theory of Economic Progress, pp. 256-257.
gin with a recognition that present-day large-scale industrial enterprises are a function of the industrial revolution which began some 150 years ago. Their central concern, therefore, is to find some technique by which society can realize the fruits of this technological development.

Admittedly, the adoption of a system of grade-labelling, the standardization of accounting, and the opening of business accounts, will not solve the problem. But they argue that such action is a step in the right direction, while traditional antitrust policies which have attempted to enforce competition, are not. As Ayres pointed out, "perfection is beyond the power of social theory. The alterations which any single generation can make in the existing social structure must be very slight." But one important alteration is the extension of the business principles which have proved successful for the individual firm to the economic system as a whole and the operations of those business units in the light of public scrutiny. Both of these, Ayres argues, are important and crucial steps. There was a time, for example, when kings resented the idea that the financial transactions of their private exchequer be made public, but we have come to realize that "the efficient conduct of an organization as large as the modern nation requires that full knowledge of revenues and expenditures be generally accessible." And the same, Ayres insists, is true of the economic system and the individual business units within it. The problem is not one of "imposing conditions upon business that are foreign to it," quite the contrary, it is simply one of extending those same business

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46 Ayres, Theory of Economic Progress, p. 259.
47 Ayres, The Industrial Economy, p. 397.
principles as evolved by business to the relations between individual units.

Ayres argues that the whole problem of monopoly cannot be solved by merely breaking up the large business organizations since it is virtually impossible to turn the clock back to the small-scale atomistic kind of competition that prevailed at some time in the past. The conditions that prevailed then were not because the small scale businesses were "natural," but because the "machine technology of that day was rudimentary. With the growth in scale of industrial apparatus (including the apparatus of organization), like growth in the scale of business units was inevitable." The real danger in this growth is not the deviation from the theoretical model of pure competition, the real danger is the degree of power that accompanies these industrial giants. And the public interest can be served "only by the continued evolution of democratic institutions" and not the attempted retreat to some previous scheme of affairs. "The only alternative to a universal totalitarian conquest of power is the extension of the principles of efficient organization, as they prevail within business units and make the efficient conduct of large organizations possible, to the entire economy, most particularly to the area between businesses." 48

This is essentially the same solution which Tugwell pointed to when he emphasized the tremendous size and scope of today's businesses, their wide-spread social ramifications and their mutual interdependence. It is these characteristics, Tugwell argued, which "makes social control possible. It also makes control necessary, because business is so huge and interdependent that every action it takes is fraught with

deep social implications. Thus the institutional adaptation and adjustment necessary to meet with and to cope with the problems posed by large-scale industry is of course dictated by the existence of large-scale industry. The growth of industry from the one-man, small-scale plant, to today's industrial giants, itself dictates the institutional arrangements under which they are to be operated. The principles of business organization which have aided that movement must be adapted to the industrial system at large.

As Mitchell also pointed out,

Business planning can secure effective coordination of effort only within the limits of each independent business enterprise, that is, each group of business activities subject to single financial control. It cannot effectively coordinate the activities of independent enterprises.

Coordination within the single firm, Mitchell noted, is "the result of careful planning by experts, coordination among independent enterprises cannot be said to be planned at all"; whatever coordination does exist results simply from the struggle between businesses. And whereas "coordination within an enterprise is characterized by economy of effort, coordination among independent enterprises" is characterized "by waste." And, Mitchell argues, it is the uncertainty that exists in the hiatus between business units that has in large part led toward the business combinations which are the "businessman's remedy for uncertainty--his effort to extend the number of factors that he can control." While these combinations do reduce the area of uncertainty for the firms so enclosed, they increase "the hazards for other enter-

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prises. What is needed, then, is not the haphazard combination by individual businesses, nor the attempt to break up all industrial concentrations and return to some simple and obvious system, but a concerted social effort to meet these problems in light of what has caused the problem and what can be done to secure the social advantages of large-scale industry.

This integration of various business units and their mutual dependence, is, in Clark's view, a meaningful and important condition of today's industrial society—"it represents the underlying facts about the actual industrial organism, which is an integrated whole, whether its formal organization is cast in that mold or not." This being the case, Clark argues that "the integration of particular industries" would be a step in the right direction—in the direction of coordinated industrial system and of the "correct social accounting" which is necessary if we are to see beyond the profits or losses of the individual firm to the potentialities of the entire industrial system. The potentialities which, however, cannot be realized so long as we approach the problem in light of eighteenth century concepts of free competition, so long as our only solution to the problem of giant industry is to atomize them. Any useful social policy must first recognize the dependence of our modern society upon the efficiencies of large-scale enterprise and then find the necessary institutional adaptation and adjustment for that kind of an industrial scheme. Institutional adjustment and adaptation are the essence of


52 Clark, Economics of Overhead Costs, p. 403.
economic planning, and it is the function of the economist to participate in finding the correct adjustment and adaptation. "Planning," as Clark recognized, "is no easy panacea; that much is clearly evident. It can easily make serious mistakes. But it contains possibilities of real contributions to our present state of industrial development." An economic system such as ours "cannot afford not to explore and develop these possibilities to the utmost." 53

These economists in no sense argue that they have found the final answers to the problem of present-day large-scale industry, but they are convinced that efforts thus far attempted, and particularly those of antitrust, are not the correct answers. They insist that the well-being of today's society is dependent upon the results of industrial development and evolution which have culminated in the extermination of small-scale enterprises and the emergence of huge, interdependent ones. To make effective use of this industrial apparatus, different institutional arrangements must be evolved. The institutionalists have not worked out detailed solutions, but they have pointed to the necessity for experimentation. They have made tentative proposals, tentative suggestions, which can be tested only by being put into operation to be verified or disproved. They have attempted to evolve a different set of answers, but have recognized that the answer itself can begin only as a tentative suggestion--to be adjusted, improved upon, or abandoned, as it is put into practice. It was from this point of view that Tugwell argued that the only "fruitful point of departure" for any economic thinking is that of economic policy or economic planning. And though the scientific method in such fields as economics

53 Clark, Social Control of Industry, p. 171.
is replete with "grave difficulties," they cannot be resolved by
confining economics to thinking and theorizing in a vacuum; such think­
ing and theorizing must lead to social practices. Though this is not
easy, though it is full of pitfalls, they simply must be admitted and
recognized. This, according to Tugwell, "means really only that the
tasks of a social science are more formidable than any of which we
have yet had experience." More difficult, because we have not yet
adopted this instrumentalist orientation which looks upon thinking
and theorizing as but one step in the adjustment of social difficul­
ties. Tugwell once defined theory as the "sustained thought about
some difficulty of practice." It arises due to the "inadequacies of
the customary way of managing affairs." Theory, according to Tugwell,
is simply the formulation and evolution in the thought processes "about
ways in which our institutions can be made to work better." It is the
attempt of "trained intelligences" to come to "grips with problems
that are the crucial ones of modern life."55

This is the importance and the issue of planning, as the institu­tional economists see the problem. It is the use of the "trained in­
telligence" of the economist to come to grips with modern social-econo­
nic problems; it is the attempt to find ways in which our institu­
tions can be made to work more effectively. This is why Ayres insisted
that it is an "egregious misconception" to put this kind of activity
in the past tense— to refer to a "planned economy." It is a miscon­
ception because societies do grow and change and in that evolutionary

54 Tugwell, "Human Nature and Social Economy," Journal of Philo­
sophy, August 14, 1930, p. 486.

55 Tugwell, "Economic Theory and Practice," AER, Papers and Pro­
process, "creative intelligence" has in the past played an important role and will play an increasingly important role as our knowledge and understanding grow. And the exercise of that creative intelligence is what the institutionalists mean by economic planning; it is the opposite of merely letting nature take its course; it is the opposite of relying on some series of natural laws or the guidance of the invisible hand. As Clark once argued, it is not among the various alternatives "to maintain the existing system literally unchanged... systems change of themselves, if they are not changed by outside forces." And the institutionalists are arguing for the use of our social or collective intelligence to assist in the evolution of our society, in the step-by-step process of growth and development.

While they do not have final answers (indeed insisting that final answers are not possible), they argue that various institutional adjustments must be tried. They argue that there are many promising changes which should be introduced, that the possibilities of these changes "should not be abandoned without trial." And although "complete revolutions" are indeed precarious, "first steps must be tried" if we are to adjust and adapt to the needs of our modern industrial society. The essential point, according to Clark, is to introduce tentative measures, from an experimental point of view, always "with the expectation that [these] measures will change and develop with experience." And it is the function of the economist to indicate these

57Clark, Social Control of Business, p. 516.
58Clark, Social Control of Business, p. 517.
59Ibid., p. 518.
necessary institutional changes, to suggest the measures which are
needed. As Commons argued:

What the economist does, if possible, is to uncover that limiting factor and to point out, if possible, the extent, degree and point of time at which it should be modified or counteracted, in order to control all the other factors for the further purpose deemed important.

As soon as the economist endeavors to find out the limiting factors in any particular juncture, he is both scientist and business man or politician. And it is difficult to decide at what point he passes from "science" to "art." He is scientist, perhaps, in that he weighs without bias or purpose the relation of cause and effect. He is business man or politician in that when, as scientist, he has discovered the limiting factor, he must decide, as business man or politician, upon the point of time, the degree of emphasis and the extent of operation by which he must control it by re-codifying the working rules of the concern in order to modify all the other factors in the direction ultimately desired. 61

And as Commons further pointed out, "the limiting factors are not merely nature's resources, they are the rights of property in those resources, as determined by the accepted working rules of society." 62

It is, then, the function of the economist to uncover the "limiting factor," to point out "the extent, degree and point of time" at which this limiting factor should be modified or changed, where, in our modern society, the working rules or institutional arrangements are in need of adjustment. But one important question still remains unanswered— the one raised in the quotation of Commons above: "for the purpose deemed important," or in "the direction ultimately desired."

It may be admitted that the institutionalists' definition of planning, their view of the role of the economist, the necessity for institutional

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61 Commons, Legal Foundations of Capitalism, p. 378.
62 Ibid., p. 386.
adjustment, is all well and good. This, however, leaves unresolved, for what purpose shall these adjustments be made, what is the direction toward which these changes should be introduced.

The Objectives of Economic Planning

As has been clear in the discussion in the preceding pages, these economists do not have a detailed blueprint of Utopia. Their central concern is that the industrial society has reached a point in its evolutionary development where certain things must be done if that evolutionary development is to be continued. And the central objective toward which collective action should be directed is rather simply stated; it has, in Clark's view, one dominant purpose: "to eliminate undesirable fluctuations of industrial activity and to make reasonably full use of our powers of production to support an adequate standard of living, on a sound and enduring basis." The central objective in Tugwell's view is similarly to provide "as great quantities of instruments of good living at as low a human cost as may be." As we noted in the last chapter, these economists have argued rather insistently that the market mechanism, as it has performed in the past, has not achieved the level of production of which it was potentially capable; it has had recourse to prolonged periods of stagnation; it has neglected many social needs for which it could have provided. The purpose of collective action is simply to ensure that these deficiencies in the market will be corrected by whatever institutional adjustment is necessary. Even if the necessary institutional adjustment should lead

63Clark, Social Control of Business, p. 455.
to collectivism, and if it were done gradually, step by step, then as Clark emphasized, "there would be little or no reason to fear it." The reason, of course, is that these economists are not committed to any particular institutional arrangement (such as the free market), but look instead upon all institutions as temporary means, as instruments, to be abandoned or strengthened dependent upon their efficacy. It is their conviction that the importance of the economic system, indeed social value itself, is to be found in the industrial or technological continuum, not the institutional environment within which this technological continuum must operate.

This is the point to which we referred in the closing pages of the last chapter—that value to society, can only mean the "continuous realization of a more effective organization of the technological life-process of the community." We also noted in the last chapter that the institutionalists were rather critical of the maldistribution of income which the market mechanism has caused. But the essential weakness of our system is not just that some people have in the past been able to acquire more wealth, income, and power than others. The fatal weakness is that the institutions, the "rules of the game," under which they were able to acquire such wealth, income, and power, have imposed restrictions such that society was unable to realize its full productive potential. The institutionalists are, therefore, concerned with that almost primitive adherence to certain rituals, to certain "ceremonial" procedures, which have prevented the realization of the full fruits of our industrial system. As Clark emphasized, it is both

65 Clark, Social Control of Business, p. 517.
"irrelevant and intolerable, from the planning standpoint," that the production of consumer goods should reach its maximum only when we are unusually busy building railroads and skyscrapers; and should fall to levels that mean privation when these tasks subside, though consumers continue to have just as many needs and producers continue to have just as much power (or more) to produce goods to satisfy them.\textsuperscript{67}

It is both irrelevant and intolerable, not only because it is unnecessary, but more important, because it thereby prevents the continuous realization and the continuous expansion of the technological life-process of the community. And it is both irrelevant and intolerable "from the planning standpoint" because it is a negation of the modern concept of knowledge as an instrument of control; it is to remain instead under the taboo of the village shaman's incantation. Optimum production, the full realization of and the continued expansion of this technological life-process of the community, is not a mere humanitarian ideal; it is the necessary condition for social survival.

It is the continued development of this technological life-process of the community which is the central objective of economic planning. The central objective is to ensure the continued development and growth of the modern industrial economy; is based on a recognition that we have heretofore failed to utilize our full industrial capacity and that the objective of economic planning is to ensure that it does just that. But as Ayres recognized, though all these be admitted, the questions may still be raised, "What is the 'end' for which industry is to be made to work?" "Just what is it we are planning 'for'?" It is Ayres' conviction that we shall be free to proceed with the task of ensuring the

\textsuperscript{67} Clark, Social Control of Business, pp. 455-456.
continued development and growth of modern industry only when we realize that such questions are "nonsense."68 They are nonsense and irrelevant because they misconceive the fundamental nature of the problem involved. The basic misconception, according to Ayres, stems from the traditional supposition that consumption is the "end" of all economic activity. And if this is true,

...if consumption stands above production in some metaphysical hierarchy in which it is the transcendent "end" to which production is but the "means"—then the classical economists are right and economic planning is the outrageous proposal of callow reformers to put their schemes above the conscience of the race.69

In Ayres' view, therefore, any consideration of the objectives of economic planning for the modern industrial society must necessarily begin with a reconsideration of the question of consumption as the "end" of all economic activity.

To begin with, modern science and philosophy, modern concepts of knowledge, know nothing of transcendent "ends." The issue is, rather, one of a means-ends continuum; in particular, social development is seen as a "continuous process, and it is in terms of this continuity," Ayres argues, "that value and welfare can be objectively defined and understood."70 Social value and welfare inhere, not in consumption as the end of all industrial activity, nor in individual feelings of repletion, but in the furthering of this social process; and in this light, both production and consumption are conceived in terms of a continuous


69 Ibid., p. 477.

70 Ibid.
means-ends-succession

in which production, consumption, further production, and further consumption are similarly conceived as a continuum. In short both consumption and production are aspects of the total effort of carrying on the industrial process and making it continue to work. 71

This is the central point with reference to economic planning as viewed by the institutionalists. Consumption is but a part, and a necessary part, of the social continuum, it is, in Commons' words, both "the beginning and ending of the social process." 72 Theirs is a recognition, as Clark put it, that

The true objective of planning is not stabilization at any static level, but regularized growth. It is the full utilization of our powers of production, which are continually growing, in order that our consumption may grow correspondingly. ... Increased production and a raised standard of living must go hand in hand; neither end can be gained without the other. 73

Neither end can be gained without the other because neither is the end of all economic activity; each is a means and an end to the other, which is why Tugwell also insisted that "planning for production means planning for consumption too." 74

Just what kind of production and just what kind of consumption, who is to consume what, and who is to decide who is to consume what, have always been unanswerable questions. The traditional attempt has been to appeal to some "ideal" of justice, and this has been singularly unsuccessful because

72 Commons, Institutional Economics, p. 613.
73 Clark, "Long-Range Planning for the Regularization of Industry," p. 245; italics are Clark's.
So long as consumption is conceived as "the end," the problem of increased consumption is unsolvable. But the moment consumption is regarded as continuous with the uninterrupted industrial effort of the community it becomes perfectly clear that the consumption of the underfed must be increased not because it is their "right" to eat or because feeding them would be "just," but because their working capacity, and therefore their contribution to the effort of the community, is impaired by underfeeding.

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.\(^75\)

It will collapse, because, as Clark put it, production is "continually growing,"\(^76\) and to ensure that continued growth, consumption must grow correspondingly. But the free market, giving expression to the institutions of society, resulted in a distribution of incomes such that this continued growth has been periodically interrupted. The whole idea of an economic system is that production and consumption coincide, that they are but different aspects of the same thing—the life-process of the community. Both consumption and production are two sides of the "total effort" of carrying on the industrial process and ensuring that it continues to work. And "economic planning," Ayres insisted, is but a "synonym for this concerted effort."\(^77\)

And it is the function of economics to show what institutional adjustments are necessary in order to promote this general welfare. Thus Mitchell insisted that "a community is well off in proportion to its efficiency in producing a current supply of necessities, comforts,

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\(^{75}\) Ayres, "The Significance of Economic Planning," p. 480.

\(^{76}\) Cf. also Ayres, The Industrial Economy, p. 199.

\(^{77}\) Ayres, "The Significance of Economic Planning," p. 479.
and amenities of life"; the economist, according to Mitchell, works on the "assumption that an increase in commodities and services generally brings with it an increase of welfare. It is on that assumption that we seek to promote efficiency in producing goods."\(^78\) He went on to note that the "money economy" has indeed been a "marvelously flexible institution" to achieve this social welfare, but the important task for the economist is to ensure that this will be carried forward because its capacity for "further development and adaptation to human needs has no visible limits except the limits of man's capacity for invention." With that thought in mind, Mitchell asked economists to consider ways in which this institution has served us ill, in the hope that they "may invent practical devices for bettering its operation."\(^79\) This is the same point Ayres made when he argued that "the problem of general economic and social policy is that of making the most of our tools, of their potentialities as well as their present efficiency, by whatever institutional adjustments may prove necessary."\(^80\) And this is the reason why Mitchell sees the whole concept of social welfare as being "inextricably involved" with the "growing prominence" of institutional adjustment. He thus emphasized the importance of the "close scrutiny" of the institutions of our modern society and of their efficiency in the production and distribution of goods. Investigations of this type will, in Mitchell's view, necessarily "broaden out into a constructive criticism of that dominant complex of institutions known as the money economy—a constructive criticism


\(^{79}\) Ibid., p. 145.

which may guide the efforts of our children to make that marvelously flexible form of organization better fitted to their needs.\footnote{Mitchell, "Quantitative Analysis in Economic Theory," p. 50.}

It was also Mitchell's conviction that economics should consciously "lay less stress upon wealth and more stress upon welfare." While he admitted that the concept of welfare is rather vague, he insisted that "it is capable of being made objective and definite in reference to such matters as food, clothing, shelter, sanitation, education, fatigue, leisure."\footnote{Mitchell, "The Prospects of Economics," p. 381.} This is the same point Clark made when he argued that in the modern day, the "quest for welfare" is far too difficult ever to be solved by the operations of an autonomous market based upon the "mere calculating faculty of the individual." Instead of relying on the self-equilibrating market, it is Clark's view, that "as scientific research progresses," the concept of welfare will increasingly rely upon and be based upon "social knowledge" rather than being merely a matter of "individual taste."\footnote{Clark, "Economics and Modern Psychology," p. 108.} As he said elsewhere, we are "developing at least in the direction of objective standards" for deciding these questions of control and planning as they relate to social welfare. As scientific research progresses we are coming to know more and more about the importance of leisure and the necessary calorie content for a balanced diet, we are beginning to see fatigue, not as a manifestation of man's natural indolence, but as a "physiological condition with determinable symptoms" the causes of which can be corrected to ensure the continued health of the individual and the continued growth of the social economy. With the use of this scientific research, Clark argues
that we are now capable of supplying "the burden of proof" which is necessary if we are to "amend" the standards of the market. 84  

Does this mean, then, that to achieve welfare as viewed by the institutionalists, someone is to say how much of something everyone is to consume? Does their economic planning involve making the decisions for the individual in order to promote his welfare? Such questions, in the view of the institutionalists, are based on a misconception—that of equating all planning with "blueprint planning." It is not a matter of who is to consume what, but of providing the environment in which consumption and production can grow and expand as the necessary condition for the survival of our industrial society. They are simply arguing that social value, or value to society, lies not merely in the relative value of one article to another to the individual and that it cannot be achieved by merely summing up these individual values. 85 Social value lies in the provision of ever-expanding amounts of goods, services, and leisure to the populations as a whole; it lies in the continued realization of the production-consumption-production continuum by the total social group. Social welfare or social value lies not in forcing individuals to consume what some enlightened soul believes they ought to want; it does not involve making the decisions, the choices, for the individual. It involves, rather, the provision of a social-economic environment in which consumption and production can grow and expand indefinitely. There is, of course, a difference between judgment and decision. An expert may well be better able to judge what is good for the individual in many cases, but deciding that

84 Clark, Social Control of Business, pp. 199-200.  
he must consume a certain item is a quite different matter. The goal, as the institutionalists see it, is to provide the best environment within which the individual makes his own choices, his own decisions. But to ensure that there is such an environment is a social problem, because social value inheres in the smooth functioning and expanding development of the production-consumption continuum for it is in this continuum that the life-process of the community is nurtured.

The point concerning welfare being made definite and objective, as emphasized by Clark and Mitchell, is somewhat different, though closely related—that there are some, perhaps a very few, matters relating to welfare which are capable of precise and definite measurement. And as such they can be used to "amend" the standards of the market. We do not, for example, rely upon the automatic functionings of the market to solve the problem of sanitation. And similarly with the problem of industrial fatigue—we overrule the market's calculation, which is based on the judgment of the individual laborer. Or the provision of social security, unemployment compensation, compulsory health insurance—the whole range of social services, of institutional adjustments, some of them already adopted, some not, but which these economists have insisted it is their function to take note of, to urge the adoption of, to criticize. And thus it is that Ayres specifically criticizes the social security measures that have thus far been adopted. They were, says Ayres, simply a "great crusade ... for as much decency as is compatible with capitalism." They will never really contribute to social value or social welfare so long as they are enacted in the spirit of apology. The importance of social security measures, says Ayres, is not in rectifying "a public scandal but to restore the balance of the economy." We
may adopt enough such social security measures to "ease our con-
sciences," but so long as they are not recognized as a part of the
social strategy necessary to ensure the continued development of the
industrial economy, they will not be enough to save that economy—and
we will have still more depressions, still more unused industrial cap-
acity.\footnote{Ayres, Theory of Economic Progress, p. 280.}

Their concept of planning thus stems from the concept of social
value which sees the welfare of the community inextricably tied in with
the advancement of production and the increased availability of that ad-
vancement to all those who participate in its advancement—with the lower
income groups sharing relatively larger. "How much larger," can only be
tentatively determined—it cannot be ascertained until we adopt this
social strategy, and through statistical research, ascertain just how
much is necessary to ensure that this process will be continued. It
cannot be ascertained in advance for the simple reason that we have not
yet undertaken the study of production and consumption (just as we have
not adopted social security measures) from the point of view of expanding
this production-consumption continuum. Economists have yet to make the
"realistic analysis of present-day production" which Mitchell defined
as the study of "the problem of distribution itself from the viewpoint
of production, seeking to find out the bearings of inequality of income
upon savings, personal efficiency of workers and employers, industrial
depressions and the like."\footnote{Mitchell, "The Prospects of Economics," p. 380. The institution-
alists are quite unwilling to go along with the delimitation of econom-
ics as recently expressed in one popular elementary textbook: "economics
assumes technology and institutions and leaves the problem of income
distribution to the statesman." (Samuelson, Paul A., Economics, New
York, 1951, pp. 14-15; quoted in Witte, "Institutional Economics as Seen
By an Institutional Economist," p. 134.)}
utilization of our productive powers is admittedly hard to define, and one of the basic tasks of planning would be to define it."\textsuperscript{88}

And it should be remembered—it is not a matter of increasing the consumption of the lower income groups because of some abstract concept of justice, or because it is their right to it, but simply because this is the necessary social measure if we are to realize the continued expansion of our industrial system. Theirs is, then, the attempt to evolve the theory of social value which Hamilton called for in 1918—a value theory which can be used as "a real basis for a judgment upon the social order."\textsuperscript{89}

The institutionalists have argued that economics is nothing if it is not a science of value, that economic theory is rightly identified as value theory. \textsuperscript{90} Clark, for example, pointed out that

The concept of value is the core of economic thinking, and modern economics is older than American independence, yet the builders of the science are still disputing what value is, or how it shall be conceived. This is altogether necessary and proper, for the concept is by no means in final shape. Indeed, one may hazard the prediction that progress in economic philosophy in the next half century will hinge on the adoption of new and enlarged meanings for its fundamental terms. Only so can we do for the twentieth century as much as our classical forefathers did for their time. It is a question how long nineteenth century formulations will stand the strain of twentieth century development.\textsuperscript{91}

The disagreement is with the traditional theory of value of orthodox

\textsuperscript{88} Clark, Social Control of Business, p. 456.


\textsuperscript{90} See, for example, Ayres, Theory of Economic Progress, pp. 84-85 and 208-209, and also chap. x.; Ayres, "The Co-ordinates of Institutionalism," p. 52; Clark, "Towards a Concept of Social Value"; Commons, Legal Foundations of Capitalism, chap.ix; Commons, Institutional Economics, chap. x.

\textsuperscript{91} Clark, "The Concept of Value," QJE, August, 1915, p. 683.
economics for they insist that it does not provide a basis for judgment of the social order, that it does not meet the needs of present day efforts of collective action to promote the social economic welfare of the community-at-large. Thus Commons argued that

If economic investigations are to implement the search of mankind for liberty, security, justice, equality or other great goals it would seem that economists must analyze these political, economic, and social relations by which values are made available to, or secure for, the individual.

It is their conviction that orthodox economics which has purported to find value measured in the price system, cannot contribute to the implementation of these social "goals," of these social values. It cannot implement these social values because it centers attention upon values of the individual as registered in demand and measured by price, rather than upon the collective action by which these values are realized.

The founders of the classical tradition, according to Ayres, did indeed attempt to make the science of economics into a science of value. It was their belief that "genuine and stable" values do exist, that these values are registered in demand and measured by price, and "hence the economic affairs of commercial society are meaningful, since they are organized by price, which is the measure of value." Nineteenth century social studies, and in particular those of William Graham

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92 Veblen was of course influential in this point of view; for an unusually clear statement of Veblen's concept of value as related to social welfare, see, Daugert, Stanley M., The Philosophy of Thorstein Veblen (New York: King's Crown Press, 1950), chap. iv and in particular pp. 98-103.

93 Commons, Economics of Collective Action, p. 22.

Sumner, invalidated this thesis, however. It was Sumner's argument that the mores determine what is right and wrong; it is the mores which determine values. This mores principle, now of course accepted by all social scientists, destroys the validity of the classical theory of value, according to the institutionalists. If the things that people value are merely the things they happen to value because of the mores of the community, then "demand means nothing more than the bare fact that is what is demanded, and price means nothing more than the particular money-ratio at which something or other happened to be bought and sold"; and if this is the case, then the economic system of modern society "is no system at all and means nothing but that such is the way things happen to be wherever they happen to be that way." This is precisely the same point Clark argued in "Economics and Modern Psychology" when he insisted that a person can make "nothing out of the world that the world does not first make out of him; he cannot even desire of the world save as it has taught him to desire." And this is why Clark, Ayres, and the other institutionalists insist that economics cannot rely simply on value as expressed in individual demand. It cannot because that demand tells us nothing other than the mores have dictated certain community patterns with respect to consumption, production, and the distribution of income. This is the impasse to which the mores principle has taken economics. It is the impasse to which economists have

95 Sumner, William Graham, Folkways (Boston: Ginn and Company, 1906).
96 Ayres, Theory of Economic Progress, p. 208.
97 Clark, "Economics and Modern Psychology," p. 104; also ibid. pp. 95-106 for Clark's elaboration of this point and for its importance for economic theory and social value.
98 See pp. 185ff, above, and Clark ibid., p. 96.
reacted, according to Ayres, by either giving economic theory up as a "bad job" and turning to empirical studies of various industries, or "by reading the whole problem of value out of economics—referring it back to philosophy, whence it came" and simply devoting themselves with increasing ingenuity of mathematical technique to the elaboration of various price relations. 

This has been particularly serious because it has thereby eliminated the concept of value, which according to the institutionalists, should be the central feature of economic theory. But they further argue that there are other sources of value to the community, to the social group, than those which are dictated by the mores. In particular, they argue that the locus of value to the community is the technological life-process of the community, that the continuity of civilization itself is the continuity of this technological life-process:

> 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 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.

This is the basis, then, of economic theorizing and of economic practices—to contribute to this technological or industrial continuum. The central task, said Mitchell, "is to carry forward the industrial revolution through this generation—to carry it forward in such fashion

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99 Ayres, Theory of Economic Progress, pp. 208-209.

100 Ayres, Theory of Economic Progress, pp. 222-223.
as to make it yield our race still greater benefits." The basic
criterion for all economic thought and practice, then, is simply to
further this process, to "keep the machines running." To do this

... is not to subordinate "human life" to "mere
machines." What that phrase has reference to is
the whole life-activity in which mankind has always
been engaged. It is literally co-extensive with
life itself, identical with the existence and con­
tinuance of the species, and it is the locus of value
because of this integral continuity. To speak of
value is to speak of the relation of any single act--
choice, preference, decision, or judgment--to the
whole life-process.102

The life-process of the whole community is, then, inextricably tied
in with this technological continuum, with the whole means-ends con­
tinuum of production-consumption-production.... It is the function of
the economist, then, to point out the institutional adjustment and
adaptation which are necessary for the continuance of that process.

Some of course will demur, arguing that it is of no concern to
the economist whether this so-called life-process of the community is
enhanced and developed or not. They may point to many societies, to
the Buddhists, for example, who contemplate extinction as the highest
good and who thereby see this universe as meaningless, as valueless,
who find meaning and value only in some other world. The mores of
some societies do indeed emphasize the next world, or a return to this
one in some other form. But the economist, as a social scientist,
necessarily finds meaning in this world--and the institutionalists
are insisting that such meaning is to be found in the technological
continuum to which our society owes its existence, and not in the
mores or institutions within which that technological process, that

102 Ayres, Theory of Economic Progress, p. 225.
production-consumption continuum, must operate. These economists are a product of western civilization, and their duty, as they see it, is to contribute to the development, to the healthy growth, of that civilization.

J. M. Clark once said that economics "inevitably" is concerned with two inseparable problems: "a description of the way economic forces work, and a study of the economic efficiency—or inefficiency—which results." And any analysis of these two facets, says Clark, cannot stop short of "our ultimate ideals of what is good"; it inevitably must be concerned with "the whole problem of ideals of good conduct and welfare; in short, of morals and ethics." Some may attempt to separate economics from such values, but according to Clark, "it cannot be done without introducing a bias" in the results. 103 And Commons likewise argued that the "essential attribute" of a theory of value suitable for economics is the "concept of an ultimate purpose or goal," and this inevitably involves the "intermediate and immediate instruments" by which that goal can be attained. The ultimate goal with which the economist is concerned is that of "welfare, social welfare, public good, commonweal, commonwealth," and the intermediate goal by which these can be attained is the "progressive increase of the control over nature, the 'maximum of production'" which is the necessary means to the eventual goal. 104 Thus the immediate end-in-view for the economic system is the maximum possible production with the given facilities; the social value to which this is the immediate end-in-view, is the welfare of society. And the important point, to return to Clark's two inseparable


104 Commons, Legal Foundations of Capitalism, p. 381.
facets of economics, is that any consideration of the question of how
the economic system works and the efficiency or inefficiency with
which it does work, must necessarily have reference to what the eco-

nomic system is supposed to do. Economics, in the view of the insti-
tutionalists, is necessarily purposive and teleological—in the sense
that the economist cannot escape thinking in terms of ends as well as
means, and thus his analysis must necessarily be founded on fundamental
value-judgments. The fundamental value-judgment on which the eco-
nomic analysis of the institutionalists is avowedly based is that of
the social welfare of the community-at-large. Theirs is in no way an
attempt to decide those "final valuations" such as which "human values
are important," for as Clark pointed out, these evolve "endlessly." But theirs is an attempt to show that the locus of value for the com-
munity as a whole is in the continued growth and development of the
 technological life-process, in the production-consumption continuum,
of the whole community. It is with reference to this continuum that
Clark's two inseparable questions must be related.

This is why the theory of value for the institutionalists must be
in terms of a social process; it must, in Commons' words, be related
to society as a "going concern, a process that has no beginning and no
ending"; value must be conceived of as a verb rather than as a noun.

This is the sense in which Ayres argues that "the general welfare is

106 Cf. A. B. Wolfe, "Thoughts on Perusal of Wesley Mitchell's Col-
lected Essays," JPE, February, 1939, pp. 20-21, for an unusually clear
and concise discussion of this aspect of the welfare economics of Mit-
chell.


107 Commons, "Wage Theories and Wage Policies," AER, Papers and
not a condition; it is a process." And that is why they insist that there are no fixed or final goals. Although Commons talks in terms of "ultimate" and "intermediate" goals, these terms must be taken in the context of his theory of value as a verb, as a process. The ultimate "goal" of their economic analysis is the welfare of the social group, but this social welfare is itself a continuing process, not a condition or state.

They see the technological development of society as the locus of social value; and increased production and consumption are the necessary strategy for the implementation and realization of the social value. Theirs is not an attempt to decide what is to be produced or who is to consume what, because they regard freedom of choice as of primary importance. But to make that freedom of choice meaningful, the institutional framework which governs the distribution of income, must be altered. There is, in their view, nothing automatic, there is no invisible hand, which will assure the continued development of the means-ends continuum of production and consumption upon which the health and welfare of the whole society depends. And it is the continuance of this means-ends process which defines the general welfare. They insist that the true significance to be learned from the development of the industrial revolution from the eighteenth century down to today is the possibility of the continued expansion of this means-ends process. If, however, that expansion is to be continuous into the future, it

will necessarily call for the active participation of the economist to show what institutional adjustments and adaptations are necessary, to show what collective action is necessary in order to revise the working rules and the institutions of our society. The enhancement of economic welfare is to be realized through the continuous maximization of goods and services, but this can be achieved only through the maximum use of the economic instrumentalities of technological knowledge, human and natural resources, labor power, etc.

The criterion of every economic judgment, of every economic theory which is to be tested by being put into practice, is as Ayres put it very simply, "to keep the machines running." And though this may have an ugly and base sound to some, that is what we must do and continually do better if our modern industrial society is to survive. And it is of course no easy task. There have in times past, been those who supposed that the way to do this was to chain children to the machines, but we have since changed our minds on this. Basically, however, this "keeping the machines running" has been the accepted objective of economic analysis from Adam Smith (if not earlier) to the present. For the last 150 years or so, economists have, in the main, assumed that the proper way to achieve this end was to allow the free forces of the market to function unrestricted. The institutionalists, however, argue that the market can only give effect to the prevailing institutional structure of society, and that as it has operated in the past, it has

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111 Cf. Commons, Economics of Collective Action, pp. 129-130 and 124, 150, 180, 195; also, Institutional Economics, p. 751.
113 Cf. pp. 274ff, above.
not resulted in the continued growth and development of industrial society. The tactics must therefore be altered, if this continued growth and development is in fact to be realized. There is, of course, no assurance that it can be realized; but there is a definite possibility, in the view of the institutionalists, if the economist will adopt the idea of collective action, if he will look upon the continued development of our industrial society as the locus of social value, if, as was discussed in Chapter Five, the economist will adopt a more functional and pragmatic conception of knowledge. These are some of the implications to which Ayres was referring when he said that

Without being fully aware of it its implications (since, after all, most people are not social philosophers), the whole world has come to accept physical production as the criterion of a sound economy. Institutionalism is nothing more, and nothing less, than the intellectual implications of that axiom.\textsuperscript{114}

This is of course the criterion of a sound economy and therefore the central objective of collective action which Clark also emphasized—

to eliminate undesirable fluctuations of industrial activity and to make reasonably full use of our powers of production to support an adequate standard of living, on a sound and enduring basis.\textsuperscript{115}

And this is why the social supervision of income distribution is necessary if we are to "keep the machines running." A "more equitable" distribution of income is, as Clark argued, "an immediate necessity for the continued full operation of industry."\textsuperscript{116} It is a necessity, because as he noted elsewhere, "our industrial efficiency is built on

\begin{itemize}
\item[\textsuperscript{114}] Ayres, "The Co-Ordinates of Institutionalism," p. 55.
\item[\textsuperscript{115}] Clark, \textit{Social Control of Business}, p. 455.
\item[\textsuperscript{116}] Clark, "The Relation of Government to the Economy of the Future," JPE, December, 1941, p. 811.
\end{itemize}
mass production, and to keep at work properly requires mass consumption; in other words, fairly liberal incomes distributed among the mass of the people.117

The general strategy with which these economists are concerned is that of the "continued full operation of industry"; it is that of "keeping the machines running"; it is that of "economic stability." These can be achieved, however, "only by achieving a sound system of production, and we can have a sound system of production only by consuming what we produce."118 Expanding production and its corollary, expanding consumption, are contingent upon the distribution of consumer purchasing power aimed at that expansion. This, of course, is a problem of tactics—which will have to be evolved in the light of trial and error, in the light of continuous experimentation. Tactics, of course, should be governed by the strategy chosen,119 and these economists have tried to set up what they conceived to be a workable and usable strategy—that of the continued full operation of industry. Among the tactics by which this is to be achieved is the social control over the distribution of income in order to assure the continued expansion of the production-consumption continuum. Thus the "technical problem," as Ayres sees it, which society faces is that "of devising some modification of the income mechanism calculated to correct the imbalance of production and consumption."120 The precise tactics to be employed,


120Ayres, The Industrial Economy, p. 195.
cannot be ascertained in advance, however. The precise amount of soci-

al income which would have to be directed into lower income groups,
or which would have to be spent socially, as we noted earlier, can be
decided only when we investigate the problem of production, consump-
tion and distribution from the point of view of expanding that con-
tinuum. A tentative starting point might be to establish, by the use
of the objective criteria which Clark and Mitchell think are becoming
increasingly available, the minimum income necessary for adequate
"food, clothing, shelter," etc. This would be, in Commons' words, the
"intermediate goal" toward which to aim as but one step toward the
"ultimate goal" of social welfare.

This procedure might, as Clark noted, "start with a general notion
of the size and distribution of possible social income" based upon estim-
ates of past performance and of unused capacities. As it is put into
practice and as "limiting factors were revealed which would prevent full
utilization of other factors," modifications and alterations would be
in order. Continuing studies would be necessary to ascertain how
income is being spent, and how much is being saved, and what bearing
does the concentration of income, the tax system and the social secur-
ity programs, have on these two uses of income. This would be the sort
of investigation which Mitchell also called for—to "study the problem
of distribution itself from the viewpoint of production, seeking to
find out the bearings of inequality of income upon savings, personal
efficiency of workers and employers, industrial depressions and the

121 Cf. above, pp. 331-335.

122 Clark, Social Control of Business, p. 466; italics added.
like.\footnote{Mitchell, "The Prospects of Economics," p. 379.} The "net outcome" of these surveys and studies, Clark noted,

would be, not a detailed budget such as a socialist state might draw up, but an estimate of unused capacities for production and consumption, \footnote{Clark, Social Control of Business, p. 467.} which would also shed light on the adjustments necessary if these potentialities are to be realized.\footnote{Mitchell, "The Prospects of Economics," p. 379.}

Thus, the precise institutional adjustments which are necessary, the precise ways in which collective action should be used to implement these goals cannot be spelled out in advance. But it is their conviction that a start in that direction must be made; we must endeavor to realize the full potential of our industrial capacity by seeing to it that all potential income is in fact created and that all that social income finds its way back into spending channels. Whether that rechanneling is done by means of subsidies, by farm price supports, by the use of a truly progressive income tax, by means of public housing, by an expanded social security program, by a guaranteed annual wage, or by some other measure, will have to be decided in the process of experimentation, of putting these measures into practice and testing their efficacy with respect to the overall strategy of ensuring the "continued full operation of industry."

The institutionalists insist that the purpose of such measures is not simply to relieve suffering; it is not, as Ayres put it, to satisfy some abstract ideal of justice to the poor, it is not, as Clark put it, a mere "humanitarian aspiration." They are, rather, necessary tactical moves to ensure the implementation of the overall strategy which they have adopted—the assurance of a stable and expand-
ing industrial economy. We do not have it in our power, Ayres argued, to maintain a stable and expanding economy within the present institutional framework. Thus, we must either

find a way to distribute purchasing power in such volume as to permit the full utilization and continued expansion of our productive system and so attain the stability which all economists have sought, or we must prepare to face the deluge only hoping that some other political regime will be wise enough to do what we have failed to do.125

And as Tugwell also summarized their view,

An experimental economics developed on the side of theory for the projection of reconstructive programs, on the side of research for testing and substantiation, on the side of teaching to provide new workers and new attitudes and to insure the continuity of knowledge as well as to acquaint men in general with the nature of the problems and the general means of their solution—an experimental economics developing in a free university where examination and criticism of industrial forces are encouraged and rewarded, would possess that hope for the future that men are obliged to try to realize.

Lacking the adoption of this experimental attitude toward the economic system, our industrial civilization may "slip and regress, falling into the made desuetude of ruin that overtook Assyria and Egypt, Greece and Rome." It is possible, Tugwell argued in 1924, that "our civilization may, with all our hopes and plans fall from the tree of time and rot like a withered leaf in the mold of common earth." Thus it is the function of free universities and of economists as free men within those universities to see that this does not happen. Most important of all, they should not "protect the two-hundred-year old institutions of industry," those "most transient institutions" from free thinking and experimentation."For industry is a social instrument, which, if

freely experimented with," holds untold promises for the future; "it can deliver mankind for whatever life seems to men good. It remains only to be said that an experimental economics is the condition of this freedom." It is perhaps unnecessary to point out that Tugwell's plea for this experimental attitude toward the institutional fabric of society was not adopted in the 1920's and the economy did slip and regress; it did rot like a withered leaf for a long, long time. It did in fact require collective action to breathe life into the withered plant.

Perhaps what was required was a social revolution; a revolution, however, not of barricades, but simply of ideas.

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CHAPTER X

ECONOMIC PLANNING: THE ROAD, OR THE ALTERNATIVE, TO SERFDOM?

The institutionalists have thus emphasized the need for social control, for collective action, as a means of implementing economic reform and planning. They have argued for the adoption of an "experimental attitude" toward the institutional fabric of society. Theirs has not been an attempt to draw up a blueprint of Utopia, but to point to the necessity of making the economic system work. And while much of this central thesis has been accepted by layman and economist alike, there do remain many who object strenuously. Professor Hayek, for example, argues that the kind of economic planning they advocate inevitably brings the worst to the top, that it necessarily leads to cultural uniformity and political dictatorship. It is his central belief that "the democratic statesman who sets out to plan economic life will soon be confronted with the alternative of either assuming dictatorial powers or abandoning his plans...."¹ The issue, in Hayek's view, is always one of black or white; any deviation from the pure, lily-white, ideal of a competitive, market-controlled, economy inevitably starts society down that slippery road to a totalitarian nightmare. The only kind of planning which Hayek will tolerate, and indeed the one kind which he strongly advocates, is that "very necessary planning which is required to make competition as effective and beneficial as possible."²

²Hayek, Road to Serfdom, p. 42.
So the issue is not one of planning versus no planning. It is one kind of planning versus another. And in Hayek's view, any planning other than planning for competition, means that "which is to be substituted for competition," and it is this kind of planning that will inevitably lead to a dictatorship, no matter how well intentioned the planners may be. It is simply the inexorable consequence of planning.

Thus Hayek argues that planning leads to dictatorship because dictatorship is the most effective instrument of coercion and the enforcement of ideals and, as such, essential if central planning on a large scale is to be possible. The clash between planning and democracy arises simply from the fact that the latter is an obstacle to the suppression of freedom which the direction of economic activity requires.

Ludwig von Mises likewise has long been a trenchant critic of any form of economic planning. In von Mises' view, the issue is even more pointedly one of any planning versus a market-controlled economy. There is no middle ground, there is no deviation from the ideal; it is always and inevitably a case of "either-or." It is a question of either a competitive, market-controlled economy, or of a socialist, communist or planned economy—all of which mean complete abandonment of the market mechanism. All economic systems must fall into one or the other. Thus he argued that

Private ownership of the means of production (market economy or capitalism) and public ownership of the means of production (socialism or communism or "planning") can be neatly distinguished. Each of these two systems of society's economic organization is open to a precise

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3Hayek, *Road to Serfdom*, p. 42.
4Ibid., p. 70.
and unambiguous description and definition. They can never be confounded with one another; they cannot be mixed or combined; no gradual transition leads from one of them to the other; their obversion is contradictory. 6

There is, then, no slippery road leading to the abyss of a planned economy—once society deviates from the ideal, it is there. 7 But the important point is that he, with Hayek, equates all planning and intervention with totalitarianism and dictatorship. Thus he disdainfully refers to "social engineering":

Like planning, this term is a synonym for dictatorship and totalitarian tyranny. The idea is to treat human beings in the same way in which the engineer treats the stuff out of which he builds bridges, roads, and machines. The social engineer's will is to be substituted for the will of the various people he plans to use for the construction of his utopia. Mankind is to be divided into two classes: the almighty dictator, on the one hand, and the underlings who are to be reduced to the status of mere pawns in his plans and cogs in his machinery, on the other. 8

Unlike Hayek, von Mises includes all forms of intervention or planning in his wholesale condemnation; his is strictly a laissez faire, let the chips fall where they may, market-controlled-economy, point of view. He is equally bitter in his denunciation of trade unions, do-gooders, the progressive income tax, public expenditures of money.

6 Ibid., p. 712.

7 Although von Mises does not specifically say so, in fact seems to deny it most of the time, he presumably recognizes a difference in the degree of deviation from his ideal of a laissez faire, market-controlled, economy. Thus he is quite critical of the various interferences with competition, with the various forms of collective action, which have grown and developed during the last several decades. And while these interferences have resulted in "catallactic competition" having been "seriously restricted," von Mises holds that "the market economy is still in operation although sabotaged by government and labor union interference." (Human Action, p. 279).

8 Ibid., p. 113.
All are but the attempts of some small clique to impose its will on others; all therefore necessarily mean the loss of freedom and liberty for the great mass of humanity. All, if continued, inevitably mean the demise of the market economy. Thus he argues that "the interventionist interlude must come to an end because interventionism cannot lead to a permanent system of social organization." He advances several reasons for the "collapse" of this interlude. Among the most important is the fact that

all varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which—from the point of view of their authors' and advocates' valuations—is less desirable than the previous state of affairs which they were designed to alter. If one wants to correct their manifest unsuitableness and preposterousness by supplementing the first acts of intervention with more and more of such acts, one must go farther and farther until the market economy has been entirely destroyed and socialism has been substituted for it.\(^9\)

Any intervention with the market can only bring about a worse state of affairs which calls for still more intervention—until the market economy has collapsed. The only alternative then will be to return to a pure and perfect market economy because the basic aim of all interventionism is that of "confiscating the 'surplus' of one part of the population and ... giving it to the other part. Once this surplus is exhausted by total confiscation, a further continuation of this policy is impossible."\(^10\) The pressing issue today, the call to action which von Mises has sounded, is to "choose between the market economy and socialism." Society, according to von Mises, "cannot evade deciding between these alternatives by adopting a 'middle-of-

\(^{9}\) Human Action, p. 854.

\(^{10}\) Ibid., p. 855.
the-road' position, whatever name they may give it.\textsuperscript{11}

Von Mises has of course adopted a rather extreme view—that no kind or amount of intervention can be tolerated. If the market economy is to work, then we must have complete and absolute faith in it. We cannot alter it in any respect, for once we do change it, we are soon forced to change it again, and so on cumulatively until it is abolished. This is obviously the extreme of the view we examined in Chapter VIII—that the market mechanism is the alpha and omega of all matters economic. And it is the extreme position of the view with which the institutionalists have disagreed quite vigorously, for it is their view that the market is but one instrument for achieving social-economic welfare and that it can only give effect to the basic underlying institutional structure of society. It is not a prime mover, it is merely a recorder of that institutional fabric. It is not the \textit{sine qua non} of the economic welfare of society but merely one means for implementing that welfare. As such it can be modified or altered to meet the demands of society. This is precisely what Commons referred to when he noted that "interference with the law of supply and demand" has always been the prime objection to all forms of collective action. As Commons pointed out, however, these interferences have been repeated time and time again because the "alternatives of noninterference under the circumstances were deemed worse than the interferences."\textsuperscript{12} Society has simply been unwilling to accept the machinations of the market as final, as beyond human intelligence to control and direct. If society were to follow von Mises, we would have

\begin{itemize}
\item \textsuperscript{11}Ibid., p. 857.
\item \textsuperscript{12}Commons, \textit{Economics of Collective Action}, p. 137.
\end{itemize}
to abolish all social security, all banking legislation (perhaps eliminate banks except as a place to deposit "hard" money), trade unions, public health laws, and so on and on and on. This society has been unwilling to do, and in the view of the institutionalists (and in the view of most other economists), this refusal has been sound and correct. It has been sound and correct, for as Commons pointed out, interference or noninterference with the market cannot be judged in terms of the merely logical consequences of isolated assumptions such as the law of supply and demand. They must, instead, "be judged by the practical consequences of their operations; ... the full consequences can never be anticipated before programs are put into effect."

Worthy of more serious consideration, however, is the view of Hayek—that society can and should interfere with the market to make competition both effective and beneficial, but that any other kind of collective action, any other kind of interference, is the beginning of the end. It is the first step toward dictatorship and hence spells the demise of democracy and freedom. Here the issue is not one of planning versus dispensing with all planning, it is one of what kind of planning we shall use. It is the issue of whether capitalism or the market mechanism can be altered without losing our freedoms and liberties, without adopting a totalitarian regime.

The institutionalists, as we noted earlier, have argued that freedom is not merely a negative concept; it is not merely the absence of physical restraint or coercion. It is in fact a social goal to be

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continuously sought and improved upon; and it is the total social structure which defines freedom and opportunity for the individual. It is thus that these economists do not look to a social organization which is merely the sum of the actions of innumerable disparate individuals, but to that social organization itself as an instrument for creating individuals. They have argued that it is only through collective action that liberty, freedom, and security, are to be achieved. They have, therefore, argued that it is the function of the economist to adopt an experimental attitude toward the institutions of society, that it is his function to point out needed institutional adjustments and adaptations, that it is the function of the economist to be a social critic, a reformer. Many economists who would not adopt the extreme position of either Hayek or von Mises have nevertheless taken a rather dim view of this "experimental attitude," insisting that when you scratch a reformer, you uncover a dictator. Professor Frank H. Knight, for example, once argued that "advocacy of extensive reform is practically the solicitation of the position of king on the part of the reformer." He goes on to argue that the reformer usually has little to offer in the way of a definite program and that "in an age of experimental science, he also rather typically advocates experimental procedure--with himself as experimenter and society as experimented upon."

Is this, then, the role in which the institutionalists are to be cast? They are avowedly reformers, they have avowedly advocated the adoption of this experimental attitude. Are they then merely

soliciting for the position of king, are they trying to impose their values on society at the expense of the values of other members of society? If so, if they are but would-be dictators, if we have only the alternative of the market economy or a totalitarian system, then perhaps von Mises is right. Perhaps we should logically abandon any interference with the market and simply relegate our lives and our fortunes to it. The institutionalists, however, have insisted that this disjunction is quite superficial; that the choice is not simply one of an absolute reliance upon the market or of dictatorship. The real alternatives are not those of a market mechanism versus planning, or of a dictatorship versus democracy. Nor is it simply a case of planning for competition versus planning against competition, as Hayek would define it.

Economic planning, the institutionalists assert, is inherent in the functioning of the modern economy. Thus Clark argued that among "the more specific and tangible effects of the mechanical revolution" was the fact that

It has enormously increased our interdependence and the resulting need of control, and of extending it over wider areas. It has created the problem of business cycles and unemployment. It has given us nation-wide trusts and the modern forms of "imperfect competition" which somehow must be controlled.\(^\text{16}\)

And Mitchell, emphasizing the same point, noted that while the earlier attempts to reinstate economic planning were due to the "incidental defects" in the operation of the economy under a system of laissez faire, the more recent attempts at planning have resulted primarily because of the "major successes" of that system.\(^\text{17}\) By "major successes,"

\(^{16}\) Clark, Social Control of Business, p. 488.

\(^{17}\) Mitchell, "Intelligence and Economic Evolution," p. 118.
Mitchell is not overlooking the increasing number of defects, such as the business cycle. He is merely emphasizing that these defects are due to the major successes of the economic system. The increasing complexity of economic relations, and the increasing number of social-economic problems, are due to the growing interdependence of individuals in modern society—and this interdependence is one of the major successes of the modern economy. Likewise, "the wider geographic scope of economic organization exposes the modern man to more and more hazards that he cannot control," and he has therefore turned increasingly to "his government" and other forms of collective action for aid and assistance.  

Because of these social-economic problems which he thinks will grow and expand in the future, Mitchell concluded that we "are in for more rather than less governmental planning in the calculable future." This being the case, Mitchell argues that "whether we fear or welcome these prospects of an evolutionary trend or a revolutionary shift toward governmental regulation," it is manifestly necessary that this is "a problem that the social sciences should join in attacking." This is of course the main development that institutional economics has taken—the attempt to contribute to the problem of social-economic reform, to contribute to the efficacy of social intervention in the functioning of the economic system.

To return to the fear that any economic planning necessarily leads to dictatorship, the institutionalists have argued that this misses the

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18 Ibid., p. 119.
20 Ibid., p. 126.
important issue. They are unwilling to compartmentalize all possible forms of economic organization into two nicely separated and disjointed categories. Thus Commons noted that in modern society one widely prevalent fear is of any form of collective action, whether it be by the government, trade unions, or corporations. "All collective action," Commons noted, "is looked upon with fear as leading straight to some form of dictatorship." This, however, is hardly a scientific attitude; rather than condemn from the outset all forms of collective action, Commons insists that "in cases as they arise, all kinds of collective action can be investigated to see whether, at the time and place, they are conducive to more real and equal freedom than the type of collective action which they displace." Collective action, Commons argues, is the dominating facet of the modern economy and the adoption of any particular form of collective action does not involve adopting it de novo; it is a question of whether the collective action contemplated is more or less conducive to economic welfare, to "real and equal freedom," than are the forms of collective action already in existence.

The institutionalists do not condemn all collective action per se, but argue that any particular instance of it must be examined in light of the extant problems and alternative ways of meeting those problems. Thus Commons insists that "collectivism and individualism are not incompatible except when reasoning from extremes at either end"; but problems are not to be solved by reasoning from extremes. They are to be solved only by finding a pragmatic solution somewhere "between these contradictory extremes." This, then, is "the field of institutional

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21 Commons, Economics of Collective Action, p. 237.
economics." And as Commons continued, it

...does not simplify the science of economics; it makes the science more complex and difficult, even vital to national existence. But it makes economic science less dogmatic and satirical by making it more investigational and more practicable, perhaps more conciliatory. 22

It makes economics less dogmatic, more functional and more investigational, because the institutionalists are unwilling categorically to exclude everything that deviates from the one hypothetical extreme of a market-controlled economy. It is, in their view, impossible to abolish all forms of collective action; but this is precisely what would be necessary if we were to establish the system of laissez faire, of absolute and complete guidance of society by the actions of individuals, which von Mises advocates. (Although it is doubtful if von Mises would abolish the corporation—it is just the other forms of collective action which he mistrusts.) But this course of action, as Clark pointed out, "would in itself involve one of the most difficult tasks of coercive control of any course we might try to chart."

It would be more coercive than any other possible course of action because we would by force have to undo some 150 years of history.

Large business organizations would have to be broken up into small units, which might control one another by their unregulated competition. National labor organizations would have to be similarly broken up or disarmed, with what expenditure of coercion and rousing of group hostilities one hesitates to contemplate. 23

The chaos resulting from an attempt to go back to some small-scale economic system would be beyond imagination. It would involve a tre-

22 Commons, Economics of Collective Action, pp. 237-238.
mendous lowering of our standard of living because it would necessarily involve the elimination of all large-scale industry—unless we were to abolish all forms of collective action except for large business and industrial units, which would, then, be tantamount to fascism. And yet that is what von Mises would seem to advocate because of his unholy fear of any interference with the market mechanism. And this is why the institutionalists conclude that we have no real choice; we cannot go back; we have, as Clark said, "no choice but to go forward, into courses contrary to many of our cherished traditions." Contrary to "cherished traditions," because in our traditions, in our institutions and mores, we have eulogized individual self-reliance and feared any form of collective action—even while our daily activities have increasingly contradicted these traditions.

Also, with Commons, Clark agrees that this going forward, this attempt to make the economic system work by methods other than a return to some previous era, is a difficult and complex problem. But in Clark's opinion,

The only thing that can make the task hopeless is a conviction that it is hopeless and therefore not worth the endless effort it will cost. If men keep trying, after reasonable proposals have been wrecked by one obstacle after another, every now and then they surprise themselves by reaching a reasonable solution. And if they dislike strongly enough the alternative possibilities sketched in the preceding chapter (the return to laissez faire, or the adoption of various forms of dictatorial control), they will conceive a workable democratic adjustment as their main task, worth almost any material concession, and

24 This is essentially the plan temporarily advocated for Germany at the close of World War II—a plan which, because of the tremendous hardships which it would impose, even had it been possible to put into operation, was therefore abandoned. Cf. Henry Morgenthau, Jr., Germany Is Our Problem (New York: Harpers, 1945).

25 Clark, Social Control of Business, p. 489.
their will to keep on trying will become indomitable. In that case, it is not too late to avoid shipwreck by modernizing the constitution of industry.26

The task, then, is not hopeless—if we try to make the economic system work, if we will adopt an experimental attitude and not dogmatically exclude possible alternative institutional arrangements. And the important point is that by making it work, through collective action, we can thereby increase freedom and liberty—both in general and for the individual. The individual, in the view of the institutionalists, is but an abstraction; he is never an isolated datum. He is but a part of a going concern. And this is why Commons and the other institutionalists see collective or social action as the "liberation of individual action from coercion, duress, discrimination"; collective action is the necessary instrumentality for the "expansion of the will of the individual far beyond what he can do by his own puny acts."27 Differing from Hayek and von Mises, the institutionalists have taken cognizance of the tremendous growth of the modern industrial economy and have therefore concluded that "collective action means more than mere 'control' of individual action. It means liberation and expansion of individual action; thus, collective action is literally the means to liberty."28

Both liberty and freedom are multi-faceted and multi-lateral social goals. As Barbara Wooton once commented, any perusal of the importance of freedom is always an important reminder that "freedom

26 Clark, Social Control of Business, p. 525.
27 Commons, Institutional Economics, p. 73.
28 Commons, Economics of Collective Action, pp. 34-35.
has to be perpetually reinterpreted into freedoms." This is because freedoms are of many kinds and of many dimensions; freedom includes, but is not confined to, nor defined solely by, the absence of physical restraint or coercion by the political government. That is but one kind of freedom: political or proprietary. Economic freedom, for example, means more than the legal right to open an enterprise and to make a profit; it means more than the legal right to work or to quit. Thus, in the case of the individual laborer, Commons argued that "laborers cannot choose to work according to the amount of pain. They work or do not work according to the alternatives that custom and law permit proprietors to offer and withhold." It is the customs and laws of society that determine the existence or absence of economic liberty. And those customs and laws, if they are merely negative, meaning that they treat all individuals as equal agents, may ensure each individual equal political or proprietary liberty, but by so doing, deny them equal economic liberty. Thus Commons drew a distinction between political or proprietary liberty (the only kind of liberty recognized by Hayek and von Mises) and economic liberty:

The workingman and the job-giver have equal proprietary liberty in that each has equal liberty to work or not work, to hire or not hire—the officials of government are required both to keep their hands off and keep other people off. But each may not have equal economic liberty because the alternative for the workingman may be the onerous alternative of enlarging his total labor-pain as the price he must pay, while the alternative for the job-giver may be only the inconsequential alternative of foregoing one cut

29 Wooton, Barbara, Freedom under Planning (London: George Allen and Unwin, Ltd., 1945), p. 9. This little book, written in answer to Hayek's Road to Serfdom, is well worth reading by one disturbed about the incompatibility of economic planning and freedom.

30 Commons, Institutional Economics, p. 199.
of hundreds or even thousands of laborers in filling
the jobs in his concern.31

And in the view of Commons, any meaningful concept of liberty must
include economic, as well as, proprietary freedom because in order
for there to be "perfect liberty" there must be, not only absence
of legal duties, there must also be abundance of economic opportu­

nity."32 As he sees it, that "which deprives people of economic
liberty is unemployment and poverty."33 J. M. Clark, elaborating on
the same subject, pointed out that the "most fundamental limitation
on control" is the fact that the "paramount human value is liberty."
This being the case, Clark emphasized the importance of a truly mean­
ingful concept of liberty, arguing that "we must deal with the sub­
stance, not merely the form." And the substance of liberty is of many
dimensions, for as Clark added, "liberty, as we have seen, is limited
just as surely by ill-health or poverty as by actual servitude."34 So
if there is to be "perfect liberty" much more is necessary than the
mere absence of legal coercion or legal duties; and it is this "perfect
liberty" toward which the institutional economists are striving--insist­
ing that it cannot be achieved by a mere laissez faire policy.

This perfect liberty can, perhaps, never be fully realized; it
can, however, be approached--but only by a concerted effort through
collective action, through social control, through intervention in the
functioning of the market. It is the customs and laws of society that
define the existence or absence of our various freedoms and liberties.

31 Commons, Institutional Economics, pp. 199-200.
32 Ibid., p. 200.
33 Ibid., p. 902.
34 Clark, Social Control of Business, p. 162.
And these customs and laws are translated into reality in many cases by the market mechanism. The market mechanism, unchecked and un-supervised, can impose restraints, it can infringe upon liberties, just as surely as can the dictator which von Mises and Hayek feel certain is the only alternative to the self-regulating market. Thus it is to collective action, to social intervention, that we must look in order to protect or to increase the many social and individual freedoms which we deem important.

If we are to plan, if we are to interfere, if we are to guide and direct and alter the market, does this necessarily mean imposing some one person’s will, some one person’s values, on the rest of society? It may be admitted that the market can impose restraints and infringe upon liberties just as surely as can a dictator, but it can also be argued that because the market at least disperses the power of various individuals, this is preferable to the imposition of the will and values of a single dictator. The institutionalists, however, take exception to this argument on several grounds. First it assumes that the market and a dictator are necessary alternatives—a view with which, as we have already seen, these economists disagree. This argument also assumes that all the market can do is to give effect to the actions of individuals. The institutionalists, however, argue that the market also, perhaps primarily, gives effect to the social customs, the mores and institutions of society. But their most important objection is that the argument as framed is quite superficial—it assumes that the market is a non-partisan register of individual values and if the market is altered, it can only be to impose the values of some one else upon the values of the various individuals. This, as we have noted in this and the previous two chapters, is the view which the institutionalists
have been trying to correct. It is their contention that individual
values, whether freedom, liberty, health, happiness, or vice, can be
realized and achieved only within a social milieu. And it is their
central argument that economies as a social science is primarily inter­
ested in social values, in the value to society.

The locus of social-economic value is in the continuation of the
technological life-process of the community; it is in the continuation
of the production-consumption-production continuum. And herein lies
the basis of their insistence that economic planning does not mean the
assessments of a dictator as an alternative to the private values of
the individual. Economic planning is simply the concerted social
effort undertaken to ensure the continuation of that process. This is
the central strategy in terms of which various tactics would be de­
sign. It does not mean and it does not entail blueprint planning
such as is practiced in the Soviet Union and was practiced to a lesser
extent in the United States during World War II; but it does entail
the abandonment of full faith and reliance on the market mechanism as

And the only type of planning possible, in the view of many.
Although it is seldom noted that this type of planning during World
War II did not entail the loss of any of our traditional freedoms or
liberties. Thus Professor Girvetz aptly pointed out that our record
of production, during the war was "one of which the American people
are properly proud. It was a thrilling and unprecedented achievement.
But it was also a disheartening measure of the magnitude of their ear­
lier failure. For this success in all its enormity was a startling
and inescapable proof of what America could have done in time of peace
but had not done." And as he went on to add, practical men had long
warned us that it couldn't be done except at the cost of losing our
traditional freedoms: "Once men, who professed a love of liberty told
us that planning, organization, and regulation which made our wartime
production possible would enslave us. But no one was enslaved; men
still chose their church, aired their grievances, listened to their
favorite oracle. Congress debated, pamphleteers protested, columnists
denounced, reformers pleaded, and businessmen harvested lush profits.
To be sure, there were 'ceilings' and priorities and rationing and some
limitation of profits, wages, and the freedom of occupational choice;
but where these were burdensome the difficulty stemmed mostly from the
the self-equilibrating regulator of the economy; it does entail the adoption of the view that the market is but one instrument for achieving economic welfare, and for implementing some values. Most importantly, it involves the recognition that economic value to society inheres in the technological continuum, in the continuation of the means-ends process of production and consumption and that the continuation of that process is subject to intelligent control and guidance. This is the central issue with respect to economic planning in the view of the institutionalists and it was from this view that Clark argued that

\[\text{It is clear we have the physical capacity and technical ability to produce more than we do, even allowing for the fact that in many cases the limiting factor would be, not the capacity to manufacture, but the power of the earth to yield increased raw produce. One of the things that keeps us short of our ultimate capacity is a failure of social coordination--the failure to coordinate supply and demand or demand and need. In the main, no one is normally to blame for this condition, but to cure it is to release enormous powers of production which are now imprisoned and make a greater contribution to human welfare than any conceivable technical invention could possibly do. At present, the greatest field open to invention for bettering the lot of mankind is the field of improvements in our system of social control.}\]

This is the central strategy with which the institutional economists have been concerned--to contribute to human welfare, to better the lot of mankind, to increase "real" freedom and liberty, by improving our system of social control in order to facilitate the development of the technological life process of the community-at-large. Their view of planning is not that it is a matter of deciding what is to be produced or who is to consume. It is not the attempt to impose their

\[\text{(Cont.) scarcity of consumers' goods in time of war.}^\text{7}\] (Girvetz, Harry K., From Wealth to Welfare, pp. 175-176.)

\[36\] Clark, Social Control of Business, p. 18.
will, their values, on others; while they are indeed avowed reformers, they are in no sense of the word soliciting the "position of king." They indeed argue that such fears are based on misconceptions, or in Ayres' view, upon a confusion of tactics with strategy.

It was with respect to this whole confusion over laissez faire versus planning that Ayres argued that "unless social control is to be mere tinkering it must be guided by some general policy." The pressing need, in his view, is the clarification of the general strategy according to which social control and social policy measures are to be guided. "A principle of strategy," according to Ayres, simply "undertakes to state in general terms what it is that we are trying to do, and no more." And because we have lost sight of the central strategy of classical economics, we have been confused as to what is the purpose of general economic policy measures—the tactics which are designed to implement that strategy.

Although it has been forgotten, or at least lost sight of, classical economics "did provide some sort of perspective in which to view industrial society as a whole and some sort of guidance to economic policy as a whole"; it did provide a statement of what it is that society should attempt to do with respect to the economic system. The central idea, the key, to classical economic strategy, was the idea of equilibrium, which, however, found its way into economic thinking in the form of natural order or of natural harmony.

All sciences in the eighteenth century were of course fascinated

38 Ibid., p. 464.
39 Ibid., p. 463.
with the natural harmony that seemed to be revealed in the universe; and economics, according to Ayres, found that natural harmony in the movements of prices—a harmony "as natural and perfect as that which appeared in the calculations of astronomers and physicists."\(^1\) It was from this idea of an equilibrium of prices—the natural harmony of prices—that the central strategy of classical economics was derived, for

Such a harmony would require to be let alone not as a matter of prudence—that would be the equivalent of the schoolboy notion that Newton invented three laws of motion which it would be well for all of us to follow—but rather as a matter of necessity inasmuch as a natural harmony will inevitably re-establish itself in spite of any conceivable disturbance.\(^2\)

Thus the classical strategy, the key of which was the natural harmony of prices, provided the basis for the policy, or tactics, of laissez faire. The fathers of classical theory had a rather precise picture of what it is that was to be let alone,\(^3\) but Ayres argues that this is no longer true today, which is why the glib phrase of laissez faire is singularly shallow. Orthodox economics, adjusting to the changed climate of the science of the nineteenth and twentieth centuries has abandoned the idea of a natural harmony as evidence of the genius of the Creator, but it retained its obsession with "normal" price while rejecting the basic reason for that obsession. Since it is no longer possible to think of the price system as an expression of the natural harmony of the universe, classical economics has separated itself from concept, retaining, however, price theory itself and the vague feeling

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\(^2\) Ibid., p. 462-463.

\(^3\) Cf. pp. 233-256, above.
that something or other should be let alone. But as to just what is to be let alone, Ayres argues that "the appalling truth is that orthodox theory has no answer to this question."43

Thus the difficulty of implementing the tactics of a laissez faire policy is that the general strategy which it was supposed to implement has been abandoned. But it is not only the tactics of laissez faire of which Ayres is critical—he also criticizes the "singular shallowness" of most conceptions of economic planning. Thus he notes that the word "plan" suggests to most people—critics and planners alike—a precise set of blueprints which contain the design for the whole proposed structure of economic organization. Thus Orthodox critics denounce all economic planning as the work of would-be dictators, but the curious thing is that even the real dictators have no plan in the strategic sense. They conceal the deficiency in a smoke-screen of political metaphysics. The key to their plan, it would seem, is the apotheosis of the Nation and the self-realization of the Race of the Proletariat, which is to say there is no key and no plan, only political opportunism and military bluster. Economic planning is dangerous not because it leads to dictatorship, but because it may lead nowhere even under the dictators. It is only an attractive phrase, like laissez faire.44

It is the singular shallowness of both these phrases which leads Ayres to insist that the need today is for a new economic strategy, because before any system of tactics can be made to work—in fact before any system of tactics can be evolved—we must have a sound strategy, a general idea of what it is we are trying to do, what it is we want from the economic system.

Ayres further argues that the foundation for this strategy must be a more modern, a sounder, concept of equilibrium. An equilibrium,

however, conceived not in terms of prices, but in terms of physical stability. Although we have grown accustomed to think of economic stability in terms of prices, Ayres holds that the "first principle of all economic strategy" is that it is concerned with physical stability and physical continuity. It is concerned, for example, with the relation of population to food supply, with the continuity of the operation of our industrial society, with the full and efficient utilization of our industrial, human and natural resources. Economic planning is concerned with those industrial or physical continuities, as Clark recognized:

All our systems of control contemplate the maintenance of and even the further development of machines, system and standardization, in the interests of productive efficiency. And any ideals inconsistent with this are doomed from the start.45

This, according to Ayres, is the pressing decision with which we are faced today—"to seek economic stability conceived not in terms of price equilibrium but in physical terms as stability of men, machines, and operations." And Ayres further argues that

There is nothing esoteric about it, or even complicated. For it must be understood at once that the adoption of the principle of physical stability does not by any means require a set of blueprints showing the place of every man and every tool at every hour of the day to an indefinite future, any more than our past reliance on the principle of price equilibrium presupposed a similarly detailed knowledge of the movements of all prices whatsoever and of all the things of which they were the prices.46

It is from this point of view that Ayres insists that current fears of any economic planning as leading to dictatorship are confused—they are confused because they misconceive the necessary strategy with

45 Clark, Social Control of Business, p. 487.
which we should today be concerned. If the required strategy is that of price equilibrium, conceived as representing the natural harmony of the universe, then the necessary tactic would be that of laissez faire—and any interference is obviously the work of reformers trying to impose their will upon others, trying to impose their will, as it were, upon the natural harmonies of the universe. But if the required strategy is that of attaining and extending the continuity of the industrial or technological continuum, then the necessary tactics have changed. The implementation of the latter strategy by no means requires the adoption of precise tactics of a dictatorial nature. Or as Ayres specifically recognized,

If the adoption of an economic strategy based on production meant telling everybody exactly what he should have and precisely what he should do and be at every hour and throughout his life, that would of course be a totalitarian nightmare. But does it? Machine production has transformed western civilization not because it has placed any particular object in our hands to sate any particular want but because it has multiplied the production of all goods and the satisfaction of all wants. The principle of economic strategy which emerges from the realization of this fact is that of the expansion of production as such and in general. The question, "Production of what?", is irrelevant to this principle. There is no point to saying before you can begin to produce you must know what people want. No society begins to produce. Society is a going concern largely by virtue of the fact that we produce what we can. The effective modification of our habits of consumption does not come about as a result of spiritual revelation made manifest in wants, or by the imposition of some people's ideals on other people. The actual changes come through the adjustment of consumption to the exigencies of production.47

Thus, the economic planning which is designed to implement the strategy of the continuation of the means-ends continuum of production-consumption-production, in no way requires the detailed concern with

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what is to be produced, or who is to consume what. The public will consume what it is possible to produce, and production will be directed to those things the public wants to consume. It will be, as it always has been, a two-way affair.

And it is from this central strategy that we come back to the basic tactics of the economic planning as advocated by the institutional economists: the social supervision of the distribution of national income. It is their contention, as we have elaborated above, that the necessary tool to implement the assured continuation of the continuum of social production and consumption is the distribution of income, the distribution of the claims to production, in such a fashion that all potential income is generated and all that income finds its way back into the spending stream. The incomes of the lower income groups must be increased in order to increase their consumption in order to continue the growth of the industrial economy. It is not a mere matter of "justice," as Ayres put it, or merely a "humanitarian aspiration," as Clark put it; it is the necessary tactic to ensure the full utilization of our productive capacity, of our human and natural resources. It is the necessary tactic for the realization of social value, for the implementation of value to society. Thus Ayres argued that this "conception of value in terms of process has infinite constructive possibilities." It has these constructive possibilities because

the continued and maximal growth of technology provides an objective, factual criterion of economic value that is not a matter of taste at all and so bypasses the disjunction according to which the only alternative to the prevailing winds of popular taste as revealed (more or less adequately) by the "free
market" is the bureaucratically imposed taste of the reformer-dictator. The institutionalists thus do not see economic planning necessarily resulting in the imposition of a dictator as the only alternative to the assessments of the market; economic planning is designed simply to ensure the continued growth of the economy—not to impose some one's will on others.

Economists have long defined the central concern of their science as the allocation of existing resources. From the social-instrumentalist theory of value as viewed by the institutional economists, this central problem has been revised. In a world where everyone wants more of everything, the perennial question posed to economic planners: "Who shall get what?", the institutionalist answers that "existing resources should be so allocated that there will be continually more to allocate." This is of course to be accomplished by the social distribution of income. These economists see the possibility of the continued growth and expansion of industrial output inherent in the modern industrial economy. It remains, however, only a possibility so long as the market is viewed as a naturally beneficent, self-equilibrating, regulator. Once this view is abandoned, once we adopt the view that organized social intelligence can keep the machines running, then that possibility becomes more probable. This does not mean of course that the institutionalists regard production as the "end" of all economic activity—any more than, as we noted earlier, they view consumption as the "end." They would, rather, dismiss the whole tradition of a

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dualism of metaphysically distinct states in favor of the continuity of the whole industrial economy, in favor of the means-ends continuum of both production and consumption—each of which is both a means and an end to the other because each is a necessary stage in the continuity of economic development and growth. Nor does this principle of "keeping the machines running" subordinate human life to mere machines. As Ayres insisted, what this whole way of thinking has reference to is the "whole life-activity in which mankind has always engaged. It is literally co-extensive with life itself, identical with the existence and continuance of the species, and it is the locus of value because of this integral continuity."51

The adoption of this instrumentalist view of the market mechanism and of social value as inhering in the further development of the industrial continuum, also involves a re-evaluation of the role of government from that which has been traditionally conceived—and still is conceived by von Mises and Hayek. Thus Clark long ago regarded the government as a productive economic agency of a vital sort, a partner of industry, provider of some of the most vital factors of production, and not an extraneous burden which industry must pay for as a necessary evil but whose activities and services belong in another sphere, wholly separate from the economic: the political sphere, which at best touches the economic only to hamper business by regulation.52

The government, as one form of collective action, then, is but a partner to industry—not an outsider which at best can only hamper industry by

50 Although as Clark noted, this is exactly what orthodox economics has done; cf. Clark, Social Control of Business, pp. 487ff, and "The Socializing of Theoretical Economics," pp. 97-101.

51 Ayres, Theory of Economic Progress, p. 225.

52 Clark, Economics of Overhead Costs, p. 454.
needless and burdensome regulations. And as Clark elaborated, from this point of view, the "government can broaden its functions without encountering the same sort of resistance on the part of public opinion with which a similar enlargement of 'political' functions would be met." For when we realize the interrelatedness of the whole social-economic-political scene, when we recognize the crucial importance of collective action as a means of liberating individual action, when we recognize that the individual, his government and business itself are each but a facet of the social organism, a part of a larger, going-concern, then the activities of the government are not regarded as something external to and removed from the economic system.

This view of Clark's, advanced in 1923, has of course been accepted by many, without perhaps accepting the reasoning which we have been discussing in the pages above. It is a view which the institutionalists, however, still regard as of primary importance. Thus in 1952, nearly three decades after Clark advanced the view above, Ayres argued for the same thesis:

It is likewise not the function of government to tyrannize over business, nor is it the function of business to subvert government. As we are coming to understand the functions of both government and business more and more clearly with the passage of time and the growth of knowledge and wisdom, it is the function of both to serve the community efficiently and well.

That function, as we have seen, is a corollary of the whole technological process by which scientific knowledge and the industrial economy have been brought into existence. It is that process which has made large-scale organized teamwork possible, and not only in the realm of government.

53 Ibid.
The problem then is not one of maintaining a balance of power between the government and the business world. The trouble with a balance of power is that it cannot be counted on to remain balanced in a dynamic world. And if we come to look upon these two areas of our society as checkmates in a struggle for power, that balance is likely to be upset in the struggle. Then it would make little difference which side won out—the result would be "equally totalitarian in either eventual-ity." 54

But that eventuality—dictatorship by either big business or by big government—is not inevitable. It is only one of the possible alternatives which could result from our traditional attitudes. And this is why the institutionalists have been arguing for a re-evaluation of those traditional attitudes, centering their argument on the importance of economic planning and reform through collective action. The alternative to a struggle for power by "rival gangs" is collective action as a means of implementing social value; it is collective action as a means of liberating individual action. The individual, these economists insist, cannot be abstracted from the society of which he is a part; nor can society be viewed apart from those individuals. The disparity which has been erected between the individual and society by Hayek and von Mises is a false and misleading one because it diverts attention away from the real problems of freedom, liberty, opportunity, and security, to fruitless controversies concerning hypothetical antitheses. The problem, according to the institutionalists, is not the abstract one of individualism versus collectivism, but the much more important and real problem of how best to use collective or social

54 Ayres, The Industrial Economy, pp. 393-394.
action to achieve and to expand freedom, liberty, opportunity, and security in the twentieth century. Their aim, as Clark defined it, is the maximum development of the individual, and this cannot be brought about unless he is not only a healthy, intelligent, and effective individual, but also a unit in a system of healthy, intelligent and effective social organs for the adjusting of the many joint and conflicting interests in which he has a part. 55

The institutionalists, therefore, are unwilling either to castigate the government or to eulogize laissez faire. They indeed argue that laissez faire was but one kind of liberty, it did "not mean complete or absolute liberty," for as Tugwell pointed out, laissez faire merely stressed "the liberty of business at the expense of other kinds of liberty." Now, however, there are other liberties and freedoms which are of greater social import, and these can "be secured only by social control." 56

The institutionalists see economic freedom as being dependent upon our success in making such use of our productive potentialities that an adequate level of living is available to all. The possibility of social abundance is manifest in the modern industrial economy—in fact it is only by extending that social abundance that the industrial economy makes sense. The realization of that social abundance, however, requires a re-evaluation of our traditional attitudes and ideas. We have for so long emphasized individual wants and their satisfaction that we fail to see the real significance of abundance to society as a whole. As pleasant as it may be to the individual concerned, the

55. Clark, Social Control of Business, p. 525.
significance of abundance is not to be found in his feelings of repletion. It is rather in the fact that sickness, dullness, and stolidity—the "normal" characteristics of the indolent masses only a few generations ago—are being gradually eliminated. The social significance of industrial abundance is to be found in the tremendous efficiency and vitality of these masses, in the fact that initiative and enterprise are more widely diffused than ever before, in the fact that today's children are able to grow up in healthy environments, to go to school rather than to the mines and mills. Perhaps the most important significance is the realization that the masses are capable of such achievements; it has not been too long ago when it seemed quite clear that the common run were "by nature," lazy, indolent, and shiftless.

The task remaining today is to tap and to extend the sources of that social abundance, for as Tugwell emphasized,

Industry can lay the basis for any higher life; and no higher life can be built without an industrial basis. In this sense the new industry will make the future. 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.\(^\text{57}\)

Their concept of planning thus demands not an authoritarian control by either big business or by big government, but a society in which free thought and experimental effort and social criticism play major roles. And as Clark pointed out,

A society composed of such free individuals will be able to digest all the changes of technology and of social relationships, and will be able to transform into orderly evolution the dynamic forces that would otherwise create revolution.\(^\text{58}\)

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\(^{57}\) Tugwell, "Experimental Economics," p. 422.

\(^{58}\) Clark, Alternative to Serfdom, p. 152; this statement was quoted by Clark from an article by Bryn J. Hovde in the New School Bulletin, February, 1947.
The achievement of such a society is not an easy task, for perfection is never attainable in short order. Clark recognized that "we shall not achieve the goal tomorrow," but added that "if we advance on all these fronts, we may move in that direction rather than toward chaos."\(^{\text{59}}\)

It is the basic thesis of these institutional economists that what is required today is the collective use of our social intelligence to reap the social rewards which are potentially available. Traditionally we have abhorred governmental or collective action. Laissez faire and free competition were all that were needed; no decisions which would affect the operation of the entire economy were to be made by anybody. But the economy has changed markedly from the time when those ideas were first formulated. The problems which society faces today are not those of the eighteenth or nineteenth centuries. Changing and dynamic conditions have posed new problems; and these new problems, in the view of the institutional economists, require fresh examination and fresh answers. They require in particular the collective use of our social intelligence, for as Walton Hamilton aptly reminded us, "the task of keeping industry the instrument of the commonwealth is as arduous as it is everlasting."\(^{\text{60}}\)


APPENDIX A

BIOGRAPHICAL SKETCHES OF THE ECONOMISTS

CONSIDERED IN THIS STUDY

Clarence E. Ayres was born in 1891 in Lowell, Massachusetts. He was graduated from Brown University in 1912 and continued there receiving the A. M. degree in 1914. He studied one year at Harvard and then went to the University of Chicago where he received the Ph. D. in 1917. His academic positions were: instructor in philosophy, University of Chicago, 1917-1920, associate professor, Amherst, 1920-1923, professor, Reed College, 1923-1924, lecturer, University of Wisconsin, 1928-1929, and professor of economics at the University of Texas since 1930. He was also an associate editor of the New Republic, on the editorial board of the American Economic Review, was president of the Southwestern Social Science Association, and a director of the San Antonio Branch of the Federal Reserve Bank of Dallas.

John Maurice Clark, son of the noted economist, John Bates Clark, was born in 1884 in Northampton, Massachusetts. He was graduated from Amherst in 1905 and took his graduate work at Columbia, receiving the A. M. degree in 1906 and the Ph. D. in 1910. His academic positions were: instructor in economics and sociology at Colorado College, 1905-1910, associate professor of economics, Amherst, 1910-1915, associate professor of political economy, University of Chicago, 1915-1922, professor of political economy, Columbia, 1922-1926, and professor of economics at Columbia since 1926. Clark also led an active non-academic life, serving on the editorial board of the American Economic Review from 1924 to 1930, and as president of the Amer-
ican Economic Association in 1935. He served as a consultant to
the National Planning Board, as a special advisor to the National
Recovery Administration, as a consultant to the Office of Price
Administration during World War II and was a member of the United
Nations Committee on Full Employment.

John R. Commons was born in 1862 in Hollandsburg, Ohio, and
died at Raleigh, North Carolina, in 1945. He was graduated from
Oberlin College in 1888 and received his A. M. degree from Oberlin
in 1890. His academic positions were: instructor in political eco-
nomy, Wesleyan, 1890-1892, professor of sociology, Oberlin, 1892-
1893, Indiana University, 1893-1895, Syracuse, 1895-1899, and pro-
fessor of economics at the University of Wisconsin from 1904 until
his retirement in 1932. He was a member of the Industrial Commis-
sion of Wisconsin, the Federal Commission on Industrial Relations,
the Wisconsin Minimum Wage Board, and the National Civic Federation.
He was president of the American Economic Association, the National
Consumers League, the National Monetary Association, and an asso-
ciate director of the National Bureau of Economic Research.

Walton Hamilton was born in 1881 in Hiwassee College, Tennessee.
He was graduated from the University of Texas in 1907 and received
the Ph. D. degree from the University of Michigan in 1913. His aca-
demic positions were: instructor in medieval history, University of
Texas, 1909-1910, instructor in economics at Texas, 1910-1913, assis-
tant professor of political economy, University of Michigan, 1913-
1914, University of Chicago, 1914-1915, professor of economics,
Amherst, 1915-1923, The Brookings Institution, 1923-1928, and profes-
sor of law at Yale from 1928 until his retirement in 1948. Hamilton
was a member of the National Recovery Administration Board, a director
of the Bureau of Research and Statistics, Social Security Board, a special assistant to the U. S. Attorney General, and a delegate to the ILO conference in Geneva. He has been a member of the law firm of Arnold, Fortas and Porter, Washington, D. C., since 1945.

Wesley C. Mitchell was born in 1874 in Rushville, Illinois and died in 1948. He was graduated from the University of Chicago in 1896 and received his Ph. D. from Chicago in 1899. His academic positions were: instructor in economics, University of Chicago, 1900-1902, professor of political economy, University of California, 1902-1912, lecturer, Columbia University, 1913-1914, and professor 1914-1919, lecturer, New School for Social Research, 1919-1921, and once again professor of economics at Columbia University from 1922 until his retirement in 1944. Mitchell served as chief of the Price Section, War Industries Board during the first World War, director of research, National Bureau of Economic Research, and as chairman of the Social Science Research Council. He was a member of the National Planning Board, the Federal Emergency Administration of Public Works, and the National Resources Board. He was also director of the New School for Social Research, an Honorary Fellow of the Royal Statistical Society, and president of the American Economic Association, the American Statistical Society, and the Econometric Society.

Rexford G. Tugwell was born in 1891 in Sinclairville, New York. He was graduated from the University of Pennsylvania in 1915 and received the A. M. degree in 1916 and his Ph. D. in 1922 from the same institution. His academic positions were: instructor in economics at the University of Pennsylvania, 1915-1917, assistant professor, Washington University, 1917-1918, instructor, Columbia University, 1920-1922, assistant professor, 1922-1926, associate professor, 1926-
1931, professor from 1931 to 1937 and professor of economics at the University of Chicago since 1946. Tugwell served as chairman and commissioner of the City Planning Commission of the City of New York, Assistant and Under-Secretary of Agriculture; he was Chancellor of Puerto Rico in 1941 and Governor of Puerto Rico from 1941 to 1946.
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I, Kendall Pinney Cochran, was born in Newton, Kansas, October 12, 1924. I received my secondary school education in the public schools of Newton, Kansas. My undergraduate training was obtained at The University of Texas, from which I received the degree Bachelor of Arts in 1949. I received the degree Master of Arts from The University of Texas in 1950. While at The University of Texas I was an assistant to Professor Clarence E. Ayres during the years 1947-1949. I received an appointment as a Teaching Fellow in the Department of Economics during the year 1949-1950. I enrolled as a graduate student at The Ohio State University in September, 1950. While in residence at The Ohio State University, I have been teaching in the Department of Economics. I have held the rank of Instructor since October, 1953, while completing the requirements for the degree of Doctor of Philosophy.