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THE ECONOMIC ANALYSIS OF SOCIAL POLICY
EVALUATION
DISSER TATION
Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By
BLAINE EAGLE GRIMES, A. B., M. A.

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The Ohio State University
1960

Approved by:

[Signature]
Adviser
Department of Economics
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CHAPTER I

INTRODUCTION

This study is an economist's attempt to analyze the significant processes and problems in the evaluation of social policy in American society. The title refers to this study as an economic analysis of social policy evaluation. The explanation of the title is as follows. A social policy is a course or line of action undertaken by a more or less permanent group of persons. Evaluation is deciding whether a policy is good or bad and whether it should be put into effect. An economic analysis is one which emphasizes the necessity of economy of means to secure desirable ends. An economic approach involves the normative idea that means should be used as efficiently as possible to secure ends. To recapitulate, this study analyzes processes for judging courses of action undertaken by groups with reference to the effectiveness of the actions in achieving the ends or objectives of the persons involved.

The purpose, scope, and the method of this study are as follows. The purpose is to increase the understanding and interest of scholars and citizens in the processes of social policy evaluation in American society.

In regard to scope, the study concentrates on certain of the important elements of these processes. Specifically, its scope
includes first an analysis of the process of individual evaluation of a policy by persons affected by it. How do individuals judge policies? Second, the scope includes an analysis of how a diverse population made up of all persons affected by a policy, often in opposite ways, might act on the policy. How can the policy be put into effect, modified, or rejected in response to the various and often conflicting evaluations of all of the individuals involved? Third, the scope includes the relevant functions of and implications for economics. There will be no analyses of particular social policies. Any policy analysis given will be illustrative. No attempt will be made to catalog, describe, analyze, or give the history of particular social policies. Scant attention will be paid to the sources or processes of development of proposals for social policies. Philosophy, social psychology, economics, and government will be drawn on only in those ways and to the extent necessary for the analysis.

The method of this study is theoretical. The premises of the various points of theory are based upon the following sources of knowledge, and the theoretical conclusions of the study are checked against them. One is economic theory and certain aspects of the related fields of philosophy, social psychology, and other social sciences. Another is popular and scholarly analyses of public policy issues in the United States. Still another is the writer's systematic experimentation in processes of evaluation with individuals or groups of college students or adults.
An Example of a Policy Evaluation

Since this study brings together diverse subjects not always treated together, a rather detailed example of some of the facets of the analysis of a simplified social policy should be useful as an introduction. The example is designed to give the setting and context of the economic analysis of social policy evaluation being carried out in this study. For this purpose some subjects have been discussed at length even though little additional will be said about them in the body of the study itself. Likewise, other subjects which will be analyzed at length in the study have been treated quite briefly or even omitted. The example should help the reader understand the significance of points as they are developed in subsequent chapters, but it is not a balanced summary of the study itself.

The social policy taken for our example is a two billion dollar increase in federal government expenditures for national defense. The funds are to be used for a sharply accelerated technical program of weapons development, testing and stockpiling. Let us suppose that the plans for the program are detailed and effective and that it gives promise of considerable success. Assume that the two billion dollars of expenditures are to be financed by proportionate increase in the rates of taxation on personal income and that this is a just and equitable method for securing the funds.

Evaluation of Policy by Individual Citizen

The first phase in the example is the most important. It is the process by which an individual citizen evaluates this policy
and decides whether to support it. This involves a basic value which is emphasized in this study and is of major importance in the culture of our democracy. It is that each individual affected by a policy should judge it and participate in the decision on it. Like any value, this one is only imperfectly achieved. One of the purposes of this study is to suggest how it can be more effectively implemented.

This policy will have potential consequences for everyone in our society. A policy of this importance will come to the attention of at least part of the people of the country through newspaper articles, television programs, conversations with associates or co-workers, political speeches, magazine articles, and in other similar ways. As part of the awareness of the policy will come an awareness of certain of its important consequences for each individual. These consequences would probably be two: an increase in personal security through improved national defense and a decrease in personal material well-being because of higher taxes.¹

¹Many persons will not be subject to the personal income tax. However, of these, many will be potential taxpayers and others will be dependent upon taxpayers for their material well-being. It is really misleading to speak of individual evaluations for often evaluations are not made on a strictly individual basis but in families. It is quite likely that one or more members of a family will be subject to the income tax.

Among that part of the population which is aware of the policy, some individuals will make an evaluation based on these consequences. In practice they will strike some kind of a rough
balance between the benefit of a better national defense and the reduction in their private material well-being. The result will be a decision on the policy. In weighing the importance of each consequence individuals will to varying degrees consider explanatory facts, group values, and felt needs as they pertain to each consequence. Whether these considerations are reviewed quite briefly or systematically and at length, the decision which concludes the evaluation will likely be intuitive and immediate.

It hardly need be said that this study holds it desirable for more persons to be aware of important policies, for a larger proportion of those affected by a policy to evaluate it, and for those who make evaluations to do so more effectively. A major purpose for the analysis of the evaluation of social policies by individuals in Chapters Three and Four is to provide the basis for suggestions as to how these processes can be improved.

**Policy Decisions Should Be Determined By Persons Affected**

For the moment, make the unrealistic assumption that each and every individual after evaluating the defense policy decided in its favor by a good margin. How can these choices and decisions be implemented or put into effect? This matter which is so important for democracy is the second aspect of the example. The process of decision and initiation of the social policy and not the implementation and administration itself is the concern in this study.
The Government of the United States has many arrangements based on a tradition of long standing designed at least in part to facilitate the initiation of a policy in response to the decisions of individuals. In the present instance where we have assumed that everyone favors the policy, the problem is that of achieving people's sovereignty, that is, carrying out the will of the people. In this, Congress plays a key role. The fact that the people favored this policy would be impressed upon Senators and Congressmen by public polls, private soundings of opinion, letters from constituents, editorial comments, word from advisers, and in many other ways. By similar means the President would be made aware of the position of the people and, if necessary, he might mobilize opinion and by public or private recommendation and consultation put pressure upon individual members of Congress or upon Congress as a whole. If for some reason the policy was not initiated, citizens would have the check of Congressional and Presidential elections. Unfortunately from the point of view of the initiation of any particular policy, this check may not be effective as candidates must stand or fall on all the current issues and not usually just one.

The points made above are commonplace. Most of us are quite familiar with the political arrangements for people's sovereignty. This study will not undertake an extensive analysis of this subject but it must be introduced and described in enough detail to indicate its place in the processes being considered.

Matters somewhat less familiar come to our attention when we come to consider the decision to initiate a policy by a non-
governmental group. The American people have had less experience in and have devoted less attention to making private decisions democratically. Of course, many of our democratic governmental arrangements were developed and tried out first in the earlier years of various Protestant churches. But today it seems that governments are in the lead in this area.

Corporations, labor unions, and various private associations have the power to implement social policies. Sometimes the consequences of these policies are limited to the members of the group involved, although it is often the case that there are consequences for the general public. In keeping with the democratic ideal that each person affected by a policy should share the moral responsibility for it, questions such as the following will be asked at appropriate points. Who has the final power to decide on the initiation of a policy by a private group? To what extent and in what way is their power checked by the power of individuals or particular groups affected by the policy and within the organization under consideration? To what extent and in what ways are the persons having the power to act responsible to individuals outside the organization who are affected by the organization's policies? In summary, to what extent do those affected by the policy share in the decision regarding it?

Many courses or lines of action are undertaken not by the more formal secondary groups just discussed but by individuals or intimate primary groups such as families, proprietorships, or partnerships. Some of the same broad issues arise in this area. At
the appropriate points in this study these will be indicated. Here we might note that the basic process of evaluation by an individual is still relevant. Also many such actions have important consequences for individuals in other primary groups. We have a long history of social arrangements, primarily judicial, to handle the problems this raises. Actions of individuals or primary groups are controlled and shaped with reference to their consequences for other individuals or primary groups by bargaining within a framework of laws and customs regarding property and contract. An individual owning property may have the right to act in certain ways with certain consequences for his neighbors but not the right to act in other ways with other consequences. This market system is an ideal in the sense that it allows each individual or primary group to make his own evaluations and act accordingly with conflicts being worked out by the use of property rights and contracts.

This excursion away from the discussion of our example is necessary because the example itself deals only with a social policy initiated and implemented by a government. Thus discussion of the example does not suggest these other important matters. We have now finished the second broad phase of our example. We have suggested the outlines of the process of evaluation of a social policy by an individual and we have indicated some of the points to be considered regarding the decision on and initiation of the policy, having simplified the matter by assuming that all persons agree that the policy is desirable.
Combining Policies To Get General Assent

The third broad phase of our example makes the supposition that a sizeable group of individuals from various walks of life evaluate the policy and decide against it even though they are subject to the same two consequences. They do not judge the improvement in national defense to be as important to them as the prospective reduction in their private material means. Let us suppose that this group opposing the policy is numerically a minority. These assumptions raise a serious problem which was not present in the second phase of our example.

This third phase of the example raises a question of majority rule and touches on the matter of consent of the governed. Discussion of this issue by writers in social or political philosophy and political science usually runs in terms of a policy favored by a majority being initiated and put into effect subject to certain conditions. One of these conditions is that in case of basic or controversial policies, such as changes in constitutions or Congressional overriding of a Presidential veto, more than a simple majority will be required. A second condition often stipulated is that the minority gives its implicit consent to an action on the part of the majority which it opposes. This is in turn based on agreement with the majority on other and possibly more important issues or on agreement with the majority on procedures for protecting the interests of minorities. These procedures might make it possible for a minority to become a majority. In summary, the common conception
in these circles is that the minority acquiesces to the majority's action even though it opposes the action itself.

A basic contention of this analysis is that although acquiescence on the part of a minority is often present when actual policies are initiated, it is not the major answer to the problem raised in this third phase of our example. In fact it tends to apply only to those in the minority who take quite extreme positions. The actual answer to the problem raised by a sharp difference between a majority and minority concerning a particular policy is solved by combining the policy in question with one or more others. Thus it may be that a bundle or set of policies can be developed which will elicit the support of all or almost all persons. In effect, except for extremists, there is no minority and we have resolved our problem. Let us see how this might work out in terms of our example.

It has been assumed that a sizeable minority has evaluated the defense policy and decided against it. Suppose that this minority has business and personal interests which make them value highway improvements. Suppose for illustrative purposes that the majority favoring the defense policy does not place a high value on highways, but the defense policymakers recognize that an improved network of highways would be quite useful for our defense.

A combination of policies can be attempted. Suppose that along with the two-billion-dollar increase in government expenditures for defense to finance an accelerated technical program of weapons development, testing, and stockpiling, the policy makers propose a one-billion-dollar program of highway improvement. The
minority group which opposed the original policy now places a greater importance on the combined favorable effects on national defense and commerce and travel through improved highways, than on the loss of command over other goods and services due to increased taxes. Since we assumed the original majority put little value on highway improvement, they will favor this bundle of policies by a narrower margin than they favored the original policy. Against the favorable effect on national defense they will weigh a larger and more important unfavorable effect on their private command over goods and services due to the higher taxes which the bundle of policies involves. Both the original majority and the minority now support the new bundle of policies although this happy situation has been reached at a cost to the original majority who get less net benefit from the bundle than from the original policy.

For convenience it has been assumed that almost all of the individuals involved could be classified into two homogeneous groups. Actually there might be additional groups which would not place a high value on the benefits of either of the two policies described, but who might willingly go along if a third or fourth policy appealing to them was added to the set. Of course, there is no reason to expect that this process will necessarily work out in particular cases. When a one-billion-dollar highway program is added to the original policy, it might work out that the original majority now feels that the additional taxes aren't worth it and oppose the bundle of policies, and the original minority feels that the addition of the highway program is really not important enough to
eliminate their opposition to the original policy. Either or both of these developments are quite possible. All of this suggests the rather obvious generalization that the ability of a democratic society to act and to act effectively is commensurate with the degree of agreement among its citizens.

Continuing the third phase of our example, what points of significance should be made concerning the initiation of this bundle of policies? The observations given in phase two of the example apply here also. For the bundle of policies to be worked out and implemented, both the original majority and the original minority must have power. In this case they must have representation with power in the federal government. Oddly enough this suggests the advantages of both the diversity in Congress and the unity of the Presidency. In regard to Congress this example is not an issue with a geographic basis. However, the diversity of the geographic basis of Congress along with the simple fact of the large number of Senators and Congressmen tends to give a power representation for a diversity of views. The numerical majority on a particular policy issue does not necessarily elect the majority of the members in Congress, and even if it did, that majority might be hesitant to act without regard to the position taken by the minority of members in Congress.

But what about the Presidency? To the extent that our two-party system operates and the peculiarities of the Electoral College system do not intervene, the President is elected by the majority
of the people. In this context we see the importance of the emphasis on the President's responsibility to all the people. It would seem that he should not act solely for the benefit of the majority, but should participate in working out sets of policies to benefit all or nearly all of our citizens.

The basic additional points made in this phase of the example are that compromise, log rolling and "politics" are not just expedient, unprincipled, and distasteful acts. If they tend to result in bundles of policies which everyone or almost everyone can support, they are good. This is based on a value present in our culture which this study will attempt to spell out and strengthen that each and every individual counts. It follows from this basic value that policies benefiting certain individuals at a serious cost to other individuals should not be implemented. If each person counts, it would seem to follow that certain ones should not receive benefits at the expense of others unless that expense is in some way offset.

Related to this is another democratic value in our culture which this study will emphasize and attempt to enhance. If each individual counts, then each should make up his own mind as to the desirability of policies affecting him. He along with all others of like mind should have the power to veto a policy or group of policies which they, in terms of their own experience and the probable consequences for themselves, judge to be undesirable.

To conclude, as these are accepted as basic values in the culture of our democracy, the political art of devising and combining policies so as to get general assent should be greatly prized.
Justice

The fourth broad element or phase in this example is closely related to the third phase which was just concluded. However, it introduces for the first time the element of justice which is almost always an important part of social policy evaluation. We will consider this matter in the following discussion by introducing a detailed provision of the original defense policy.

Let us suppose that the two-billion-dollar increase in government expenditures for defense in order to carry out an accelerated program of weapons development, testing, and stockpiling makes it quite necessary to retain trained technicians in the armed forces for periods in excess of their enlistment periods or the term for which they were drafted. To this end let us suppose that the original defense policy arbitrarily extends the term of service of trained technicians and that their term of service is now longer than that for other categories of service men and women.

Technically trained members of the armed services would now be subject not only to the consequences affecting everyone as discussed above, but in addition a powerful, immediate, unfavorable, and restrictive consequence. It is likely that the defense policy would have a far heavier impact and the evaluation of it be a matter of greater concern to these persons than to members of the public generally. Assume that as matters stand these technicians in the armed services give an unfavorable evaluation to the policy by a very wide margin.
This fourth phase of the example has introduced a new and basic matter. Is the particular consequence of the defense policy for trained technicians unjust? Is the rest of society obligated to consider and adjust to the technicians' evaluations or should it be looked upon as a sacrifice necessary for the benefit of the whole country? If one accepts as basic in our culture the value that each individual counts, the answer depends on whether other policies and institutional arrangements have already resulted in the same or an equivalent adverse consequence for everyone in society except these technicians. Does this policy simply even things up by putting technicians in the same boat with others? If not, we must conclude that the consequences for the technicians are unjust. On this account the policy must either be dropped entirely or, if possible, an additional policy must compensate the technicians in some fashion so that they favor the entire set.

To highlight the new element which has been injected into the example in this fourth phase, suppose that everyone else was already subject to a comparable, adverse consequence. For example, make the improbable supposition that every adult in the country is required to work one whole day each week for the armed services. In that case we might judge the consequences for the technicians resulting from the policy in this example as just. Therefore we would conclude that technicians should not be compensated and their opposition to the policy should be ignored.

To return to the argument, a situation has been set up where the consequences for technicians are actually quite unjust. Since
the public generally is assumed to favor the defense policy combined with the highway policy, it is likely that the policy would not be dropped. Instead, means for compensating technicians would be explored. Suppose that an additional policy is developed giving differential pay and fringe benefits quite favorable to technicians. This would be comparable to the historical policy of giving special flight pay to personnel in the Air Force who actually took the additional risk of flying aircraft. Suppose further that the special compensations provided technicians are sufficient so that almost all favor or at least acquiesce in the bundle of policies in our example.²

²Ideally all technicians should favor or at least acquiesce in the policy. We should move as far toward this goal as possible, but it probably cannot be fully attained.

The special compensations for technicians may be quite expensive and will require more taxes and increase the adverse consequence for private material well-being which individuals in the public generally must bear because of these policies. This will require reevaluation by the public generally. It might happen that it was no longer possible to get the support of almost everyone concerned. In that case the bundle of policies would have to be reworked or dropped.

Let us suppose that the public generally still gives almost unanimous support to the bundle of policies. What new and additional elements concerning the decision to implement the policy
have been introduced in this fourth phase of the example? There are no basic new elements. However, it should be emphasized that the technicians must have influence. They must have representation with power in Congress or the sympathetic attention of the President or both. Otherwise they may have to bear the injustice without remedy which would be contrary to the basic value that each individual's evaluation of a policy along with others of like mind should count to the extent that it is just.

Other important questions of justice confront us. First, a set of policies may have an important benefit which applies to most but not all persons concerned. Strict justice requires that the benefit be extended to all unless this is too costly to the majority. In that case the set of policies should be dropped entirely. Second, justice would require that the original majority and minority concerned with the defense policy should have roughly equal bargaining strength. This would tend to result in a roughly equal net benefit to each group when the defense and highway policies are combined into a set. The equal net benefit would be just. Third, opportunities to benefit from policies should be equally available to all. These matters will all be discussed fully in Chapters Seven and Eight.

In concluding this example it should be pointed out that at every turn the process of evaluation of a social policy is based on the evaluations of individuals in terms of consequences for themselves. However, as the various phases of the example suggest,
this is not the end of the story. In a democracy individuals should not seek the policy which is most advantageous for themselves. They must be willing to honor the evaluations of others and to accept changes or additions which reduce the advantages of policies to them, but which make the bundle of policies advantageous and acceptable to others who disagree or who would otherwise be unjustly treated. To summarize, for almost all individuals the bundle of policies must be judged good for oneself but not for oneself alone. Costly modifications must often be included to make the policy good for society as a whole. Policies should be moderately beneficial to all rather than markedly favorable to some and markedly unfavorable to others.

At the beginning of the example it was pointed out that it was designed to give the reader a context for the points developed in subsequent chapters. It should not be taken as a summary of the remainder of the study. The next chapter is concerned with an inquiry into the analysis of types of policies. The place of institutions and theory is suggested. The chapter following that is devoted to a statement of the processes of evaluation by an individual.
CHAPTER II

TYPES OF SOCIAL POLICIES

In the first chapter we defined a social policy as a course or line of action taken by a more or less formal group. The following is a more complete definition which emphasizes the same ideas.

Policies are specified rules of action intended to achieve desired results. Social policies can be defined, accordingly, as rules of behavior which people in their social and political roles adopt or have imposed upon them, to make actions predictable and goals realizable.¹


In this chapter we will classify social policies into types and explore their significance.

Types of Policies

Changes in folkways and mores, in fact most institutional changes,² probably occur through trial and error to meet problems and implicit experimentation on the part of large numbers of individuals and groups interacting with each other and with their
changing environment. This process can lead slowly and imperceptibly to widespread changes in social habits. Often the process is so gradual that one cannot mark when the change occurred. Yet sometimes these changes are initiated by obvious inventions. These processes are the evolution of culture. It may result in part from intelligence and perception of consequences, but it seems to occur without the development of a public opinion on the matter, without a necessarily rational and systematic consideration and weighing of consequences either individually or socially, and without any formal decision, action, or implementation on the part of groups. But these habits may be affected by knowledge and rationality. Certainly the whole educational endeavor is partly based on this premise. Knowledge and rational judgment seem to have a slow but powerful and pervasive effect and this is an important reason for a critical striving for reliability in the social sciences. An outstanding example of a relatively rapid change in habits of thought as a result of knowledge and rationality is the changed concept on the part of people throughout the Western world regarding the possibility of avoiding depressions. This change occurred partly as a result of the Keynesian revolution in economics. The fact that people have come to believe that it is possible to avoid serious depressions is an institutional change of great importance.

In contrast to the foregoing, one of the characteristics of developing culture particularly in the modern period has been the growth of explicit and formal attempts to change not only
institutions themselves but also surrounding conditions. These attempts are social policies as defined above. Three types of social policy are discussed below. First, this has often involved the use of the coercive power of the modern nation state to further "justice" in some sense by compulsory compliance with a valued custom which is already practiced widely. Both statutory and common law often have been used to this end. The uniform judicial enforcement of a customary commercial practice is an example that has been repeated many times. A less important parallel is a non-governmental group's use of its power to enforce a custom and thus to dispense justice among its members. Union protection of dissenting members from expulsion except under stipulated conditions would be an example. This type of social policy is important particularly in connection with questions of justice. Our habits of thought or accepted concepts regarding what is just, determine our actions when certain individuals and groups are affected favorably and others unfavorably by a social policy.

A second type is explicit action on the part of a private group to establish and adhere to a new course of action. The relative decline of primary groups and the rapid growth of secondary groups such as schools, churches, clubs, and corporations, which have a more formal and less personal type of interaction among members, have no doubt led to a significant growth in this type of social policy. A service club may take formal action by
changing its bylaws to allow it to contribute club funds regularly to a worthwhile charitable cause. Or a member might suggest that the group take baskets to the poor at Christmastime and the practice might become customary.

A third type which parallels the second is an explicit or formal action on the part of a government to establish a new way of thinking or acting in the government itself or in the relations between the government and its citizens. Such changes in government structure or functions are commonplace. A new agency may be established by statute. A function of an agency may be eliminated by judicial interpretation. An agency may develop new rules and procedures under administrative law.\(^3\)

\(^3\)This particular type of policy was of great interest to John R. Commons.

**Leverage Policies**

A point of great importance in regard to the second and especially the third types is that an explicit and formal policy, particularly governmental, is often undertaken not primarily for its own sake but as a lever to bring about widespread changes in the actions of people. As folkways and mores alter slowly and are generally difficult to change, such changes could not be so readily initiated and consummated. Suppose we want to achieve a social objective. This ultimately means changing our systems of actions in some presumably desirable way. It is often easier to change
our actions by making an explicit change in the conditions under which we act than by changing the rules or principles or habits of action. To give a crude example, suppose that levels of nutrition seem inadequate but people are unwilling to spend more money on food because they customarily spend only a certain fraction of their income on foodstuffs. Further suppose that under-employment is widespread with consequent low incomes. If the government makes a change from a balanced to a deficit budgetary situation on a significant scale, peoples' employment and incomes will rise and following customary practice they will spend more for foodstuffs. Their nutrition may as a consequence be improved. A government policy has been used as a lever to change the conditions under which people act and thus to change their actions themselves. The lever concept is basic to the discussion below.

It is useful to cross-classify social policies as follows according to their purpose. First are those which are undertaken primarily for their own sake because of their direct consequences for the members of the group (private or governmental) involved. For example, a government agency may change its job-classification practices with consequences primarily for its own employees and their dependents, and not for people outside the agency. The growth of the importance of secondary groups or institutions such as schools, churches, and governments, has made this particular class quite important.
Second, social policies may be undertaken not for their own sake and because of their direct consequences to the group involved but as a lever to change the actions of people generally in the manner suggested above. Another example would be a government agency such as the Post Office Department which changes its mode of operation to provide better service to the public generally. The agency changes its habitual practices, but in this leverage case the major effects are on people outside the membership of the agency, whereas in the job-classification example above the major effects were on people within the agency itself.  

4Beginning in Chapter V considerable additional use will be made of the distinction between the effects of a policy on persons outside and the effects on persons inside the group initiating the policy.

A social policy may be undertaken either to bring about a significant change in the situation or conditions under which many people act or to bring about a significant change in a widespread social habit or institution. These are both leverage policies with their purpose being to achieve major effects on people outside the group involved. For the sake of brevity let us call the explicit institutional change designed as a lever to alter the situation under which people act, a situation policy, and call the one designed as a lever to alter the habitual responses of people, a response policy.  

5Let us call institutional changes adopted by a group for the consequences on its own members a non-leverage policy.
widespread changes in the actions of people and thus bring consequences to be evaluated. Also, both require theory as their consequences are separated by at least one set of responses (link) from the explicit institutional change or social policy. Many, possibly most, leverage policies will affect to some degree both the situation and the habits of the people involved and thus fall in both classes. However, the effects of most policies seem to be predominantly of one kind or the other; and as there are quite important and distinctive features of each type, it is useful to classify leverage policies according to which of the two types of effects is more important.

**Situation Policies**

First, let us consider social policies designed to change the situations but not the habitual responses of people. These situations policies have been of great importance in economic writings. It has often been argued that it is much easier to change the conditions under which people act than to change human nature. There is probably some point to this contention, but in any case economists seem to have taken it seriously. Then too, the growth of modern central governments has provided a handy and often effective lever for implementing situation policies. There has certainly been an intimate relationship between the development of much economic theory and the possibility of control of situations in which people act. It seems that economic theory is often constructed to
suggest situation policies or reveal how they would work. The development of the basic tool in classical economics, the theory of differential rent and its components, at the hands of West, Malthus, and Ricardo occurred in connection with the Corn Law controversy. Ricardo's theory explained the consequences of a reduction in the duty on corn (a situation policy) for landlords, capitalists, and laborers.

For decades the field of monetary theory was dominated by Fisher's equation of exchange and the Cambridge cash-balance equation both of which purported to explain how the average of prices would respond to changes in the quantity of money. Since the quantity of money can be influenced by rules and practices of government, these theories point the way to a control by situation policies of the price level, an aggregate which is a factor in the situation of people generally.

John Maynard Keynes' organization of his General Theory is interesting in this regard. Why did Keynes hold certain causes as fixed and choose others as independent variables in his system? Keynes wrote as follows:

The division of the determinants of the economic system into the two groups of given factors and independent variables is, of course, quite arbitrary from any absolute standpoint. . . . Our present object is to discover what determines at any time the national income of a given economic system and (which is almost the same thing) the amount of its employment; which means in a study so complex as economics in which we cannot hope to make completely accurate generalizations, the factors whose changes mainly determine our quaesitum. Our final task might be to select those variables which can be
It seems that Keynes' theory was organized with a view to developing situation policies. Keynes chose variables subject to social control. These variables roughly determined the national income and the amount of employment, both important objects in the situation of people. Thus he provided a theory for employment policy.

The number of examples could be multiplied. They serve to illustrate the significant point that much, possibly most, recent economic theory has been developed in close relationship to the potential social control of factors which affect the situations or conditions of a people and thereby influence their actions. This use of leverage explains in part why economics has been "theoretical" in the sense of using cause and effect chains of reasoning.

Response Policies

The other class of leverage policies is those undertaken primarily to change the habits of thought or action of groups other than the group making the change. These we have called
response policies. Economists in the classical tradition have taken human nature as something essentially given and immutable. Their adoption of utilitarianism did not alter this fact. This dominant group has had little systematic interest in this area. A partial exception in neo-classical thought was Alfred Marshall who stated that each new step upward in man's development "is to be regarded as the development of new activities giving rise to new wants rather than of new wants giving rise to new activities." In contrast, other neo-classical economists took human wants as given and fixed and thus implied a given and static concept of personality. Talcott Parsons looks upon this position on Marshall's part as a contribution to the development of a theory of social action. Frank Knight was apparently led by Marshall's idea of changing wants into numerous psychological and philosophical questions. Knight, Marshall, and Marshall's followers at Cambridge are the only conservative modern economists to avoid the assumption of fixed wants and a fixed human nature. At that, Marshall's concept of human nature was unsophisticated even for the later part of the nineteenth century.
A long line of dissenters from the dominant tradition in economics including Thomas R. Malthus and various socialists were concerned with changes in human nature. However, the economist who made the great stride forward in this area was Thorstein Veblen. Probably no economist before and possibly none since have equaled his contribution in this area of knowledge. He was the first of the small group of economists who have realized the significance for their discipline of cultural anthropology and modern psychology. Veblen concentrated his attention on the process of evolution of those widespread social habits which are the object of response policies. However, Veblen was not greatly concerned with social control. The economist who must be given priority for a concern with both institutions and social control is Professor John R. Commons. He did extensive and strikingly original work on this phase of economics.

Possibly due in part to the influence of orthodox theory with its assumption of fixed human nature, most economists concerned with applied and policy matters tend to concentrate on questions which relate to situations rather than responses or habits. In our society most study of institutions is by scholars other than economists. Sociologists, social psychologists, and anthropologists are investigating various subjects directly related to folkways and mores.

There is also an active interest from many sides in programs or policies to alter various folkways or mores. In a broad sense this
is one legitimate aim of all education. In all of its facets education may be looked upon as the basic response policy. If education is taken to be learning, this follows; inasmuch as learning is acquiring new habits or responses. A more specific class of response policies within the broad educational category involves securing and widely disseminating information on public issues. This is often done by private non-profit organizations. The Public Affairs Institute is one of many good examples. Other examples are segments of the publishing industry and certain government agencies.

As we move away from the general area of education we come to a broad class of response policies which are of fast-growing importance. These range from publicity, advertising, and public opinion formation to propaganda and even to brain washing. Relevant institutional changes are undertaken by both private and public organizations for the purpose of changing widespread habitual responses. For example, businesses spend large amounts for advertising to influence the buying habits of consumers. These matters are raising acute problems of evaluation. However, only incidental attention will be given to this type of response policy.

Economists should follow the lead of Veblen and Commons and direct much more of their attention to policies resulting in institutional changes. Economy of means to secure ends, the broad subject matter of economics, can be increased in either of two ways,
by accident and chance or by a process of evaluation.\textsuperscript{10} There is no

\textsuperscript{10}The evaluation need not necessarily be conscious.

convincing reason why folkways and mores should not be subject to
test in terms of economy of means. All habitual thoughts and actions
are to some degree competitive with each other if only because their
activation requires time, a limited means. They should be evaluated
in terms of their past and prospective consequences. Economists
should provide the basis for democratic evaluation by analyzing
these consequences. This knowledge would suggest changes in wide­
spread social habits with consequences which differ in ways which
might make the changes desirable.

Additional knowledge of past or prospective consequences
would become part of our culture through publication, pedagogy,
and other institutional arrangements. This might lead to the for­
mation of new and in some sense better habits. An example given
above was the change since the 1930's in the widespread habit of
thought which brought the realization that it was possible to avoid
depressions by government action.

Study and evaluation of institutions by economists, social
scientists, and other experts, might suggest new instruments or
policies for change. Thus proposals for new response policies might
be forthcoming. For example, new knowledge of broad adverse conse­
quences of a widespread social habit in terms of labor turnover
and absenteeism might cause experts to propose and agitate for a special program of research and publication in the Department of Labor.

To recapitulate, to achieve economy of means requires evaluation. A basic function of economists is to facilitate evaluation by study of the consequences not only of changes of conditions under which people act, but also in their widespread social habits.

**Delimitation of Economics**

Investigation of the consequences of institutions must be delimited. If no delimitation is made, the economists might end up doing the same work as sociologists and anthropologists although from a different viewpoint. Traditionally, economists have delimited their work by concentrating on matters that related to the material well-being of people. They emphasized material means. This has the shortcoming that it causes the student to ignore important effects of institutional change if they relate to non-material means. Possibly Veblen supplies the clue for the solution of this problem. He was concerned with all institutions and yet he valued workmanship as opposed to wastemanship, production rather than money making, and the engineer in preference to the business tycoon. He emphasized the key idea that craftmanship and instrumental skill were shaped by the materials being used. To generalize, instrumental knowledge is based on a feedback of the results of what is done. Empirical knowledge and verification are analogous
to the material's response to and guidance of Veblen's workman. Possibly the moral of this for economists is that they should concentrate on those institutions with consequences which can be analyzed by instrumental judgments subject to empirical check. If the value is accepted that we should utilize scientific knowledge to the fullest in evaluation, then the rule that we should concentrate on institutions with consequences which can be analyzed instrumentally amounts to saying that we should study those institutions which can be evaluated with relevant scientific knowledge. In this way we would tend to concentrate on problems where we can make relatively effective judgments as to economy of means.

This places a heavy emphasis on the application of empirical knowledge. Economists should limit themselves not to material means but to means subject to empirical check. This leaves to the sociologist or anthropologist the major study of many institutions which are ceremonial, ritualistic, religious, or sporting.¹¹ There

¹¹Note again the similarity to Veblen's basic dichotomy of useful and ceremonial institutions. Ceremonial institutions may be actually evaluated by the people involved but with less chance for an empirical check.

is a general case, however, where economists may have to attempt a study of means and consequences which are not amenable to satisfactory empirical check. That is the case of an effect or consequence which is assigned a very great and profound importance by people even though we have much difficulty making accurate instru-
mental judgments as to how to achieve it. An outstanding example is international peace. We have an extremely shaky empirical basis for stating the various consequences of most "peace" policies; yet peace is so important we have to try shaky policies if more reliable policies are not available. If we value a consequence highly enough, we may desire to attempt a policy even though the odds may be very low (we can't be sure in this case whether they are high or low) that it will actually bring the consequence we desire. The United States policy of foreign aid is probably an example. Many of its consequences are quite uncertain and some that we hope are favorable may actually be unfavorable. Yet, in the present world we cannot afford to miss the chance that the policy will work. Many people judge that the same is true of other peace policies.

This discussion should serve as an antidote to a mistaken impression other parts of these first two chapters may tend to give. Evaluations are never precise and are usually extremely rough. Consequences subject to empirical verification in the social sciences seldom have an extremely high probability and sometimes, as in the foreign aid example above, have a low or undetermined probability of occurrence. A thorough history of the institution and, if possible, a study of its past consequences help greatly with this latter problem. On this basis a democratic society can make small incremental changes in the institution and attempt to ascertain the changed consequences that arise as a result. If the consequences
seem to be going in a desirable way small changes in the same direction can be continued.\textsuperscript{12} In any case our problem is not to secure precise and certain evaluations. This is usually impossible. Rather the problem is to improve the necessarily imprecise evaluations and choices.

\textbf{Relation of Economic Theory to Types of Social Policy}

In concluding this section on social policy, note will be taken of types of theory which different classes of policy require. A simple theory is one which considers the direct, immediate, and individual consequences of a social policy. A complex theory relates a social policy to its indirect and complex consequences by means of theoretical chains or sequences and aggregates of consequences. Policies which have their principal effects on members of the group initiating the action usually require theory which is structurally simple. The theory would be a study of the consequences to the members of the group of the new course of action they undertake. The example given above was a new job classification procedure in a government agency.

Leverage policies would require both simple and complex theoretical treatments although the latter would likely be more

\textsuperscript{12}This process has been described by Charles E. Lindblom as "incremental analysis." See Charles E. Lindblom, "Policy Analysis," \textit{The American Economic Review}, XLVIII, (June, 1958), 301.
important. An example of a situation policy suggested earlier in this chapter was the Post Office Department's alteration of its practices to improve services to the public generally. A simple theoretical analysis of the consequences for Post Office employees would be needed. A complex theoretical treatment involving sequences or chains and possibly aggregates would be needed to analyze the various consequences of improved Post Office services for the public generally.

An example of a response policy given above was the change in the Department of Labor which established a new program of research and publication. This was designed to bring about an institutional change, an alteration in the widespread habits of American workers which result in absenteeism and labor turnover. Here a structurally simple theoretical analysis of the consequences of a change in habit for American workers is needed.\footnote{The phrase "structural simplicity" refers to relationships external to individual personalities. A simple, direct, and immediate consequence of a policy may have quite complex relations within the individual's personality. The discussion of the next chapter will be relevant to this point.} Also needed is a structurally simple theoretical analysis of the consequences for employees of the change in operations in the Department of Labor. But this may not be the end of the matter. A change of habit for American workers may lead to actions on their part which would change the situation or even the widespread social habits of other
groups in our society. The theoretical analysis of these possible additional consequences would probably require structurally complex theory. Theoretical sequences or chains and aggregative concepts might be needed.

The next two chapters will be concerned with the evaluation of a social policy by an individual. Following that the problems which arise when choices of various individuals are combined will be taken up.
CHAPTER III

THE EVALUATION OF SOCIAL POLICY BY AN INDIVIDUAL

In a democracy we like to develop the attitude that each person is responsible for himself and has a hand in determining those things which society does to him. This chapter considers the process whereby an individual evaluates a social policy. The question as to what a person can do about a policy once he has made an evaluation is left for later chapters.

When and how do individuals make evaluations? First, the nature of an individual personality and its major components will be considered. Next, the fundamental types of motivation to action which a personality experiences will be described. Following this will be a description of the choices which an individual must make before any particular situation has definite meaning to him. The function of evaluation in the personality, the nature of the process, and the purpose of evaluation will then be considered. Having discussed evaluation in general, particular questions concerning the evaluation of social policies will be discussed. First the nature of personality will be discussed in more detail.¹

Question may be raised as to the appropriateness of basing the analysis of this chapter on a particular theory of social psychology. The main safeguard is that this theory is open and eclectic. This theory of action can probably utilize and incorporate the factual findings of any approach to psychology. For example, Dr. Arthur Lynn of the Ohio State University has pointed out the fact that incorporating the idea of cathexis in the theory makes it possible to utilize basic ideas from Freudian psychology.

Conflicting value premises of other approaches (as opposed to factual findings) must be rejected. However, this is not because they conflict with the value premises of the theory of action of this chapter, but because they conflict with those which are fundamental to this entire study.

It is useful to consider a personality as a system of action with three components: the actor, the situation in which the actor finds himself, and the system of orientation or relationships of the actor to various parts of his situation. The actor is the reference point. He acts within a situation composed of objects. In turn, objects are classified as other persons (alters) who interact with him, physical objects of all sorts which may constitute means or obstacles to the actions of the actor, and cultural objects including all sorts of ways of doing things and the values or recipes for action shared by the people or groups in the culture. The actor is related to these objects, that is to say he is motivated by them in three ways. The first two of these must be ingredients of every action. First, is the motivational orientation called cognition. The actor "sees" the object and ascribes significance to it. At the same time the actor sees the object, his interest is aroused by it. That is to say that he cathects the object and experiences an immediate favorable or unfavorable, mild or intense interest in
it. Whereas an actor is related to every object in his situation as known to him by both cognition and cathexis; he may or may not be related to each by the third motivational orientation, evaluation. An actor evaluates an object which he has seen and which has aroused his interest when he fits it into his plans.

The habitual ways a person relates himself to objects in his situation (other persons, things, and items in the culture) are what we mean by his personality. In a sense he is his potential or actual actions in regard to the objects in his situation. The relationships or orientations between the actor and the objects are often called need-dispositions. These are habitual tendencies to orient and act with respect to objects in certain manners and to expect certain consequences from these actions. The phrase has a double connotation. On the one hand it suggests a tendency to achieve some desirable state or end and on the other hand it suggests a disposition to do something with an object designed to achieve this desirable state. It follows that we can say that a personality is an organization of need-dispositions. For example, a person has a tendency to act in regard to some other person in such a way as to cause that other person to act to meet some need of our subject. An habitual relationship of this sort is a need-disposition. Or our subject may be disposed to maintain an assortment of physical objects to provide himself with shelter, warmth, and ease. The need-disposition concept emphasizes the fact that individuals have various tendencies to act to achieve goals which in turn satisfy needs.
We are concerned in this study with the enhancement of individuals by social policies. In terms of the psychological concepts of our present analysis, what does enhancement mean? The answer is an ordering of need-dispositions to enhance gratification or to reduce deprivation. A need-disposition involves the locating and recognition, that is the cognition, of an object and at the same time a cathexis of the object. The latter is a tendency to attach to an object which affords gratification or to avoid an object bringing deprivation. This is an immediate matter. Accompanying this need-disposition may be another requiring the evaluation of the object in terms of its more subtle or longer-term consequences for the gratification-deprivation balance of the personality.

Personality is organized and integrated by choosing among competing or conflicting need-dispositions in order to improve the gratification-deprivation balance.

In any complex system some mediating mechanism is required to accomplish the discipline of the parts with a view to the organization of the whole. Biologically oriented theorists have been wont to postulate "instincts" or "systems of instincts" as the mechanisms which mediate this discipline. . . . Having given up instinct as the over-all organizing principle, we require some compensative element of organization. For us, that element is the evaluative mode of motivational orientation. It regulates selection among alternatives when several courses of action are open to the actor (owing to the plasticity of his relationship to the situation).2

2Parsons and Shils, p. 71.
Enhancement of the individual personality requires evaluation.

It operates wherever a selection problem is presented to the actor, where he wants or could want two or more gratifications, both of which cannot be attained—where, in other words, there is actually or potentially a situation in which one "wants to eat one's cake and have it too".

\[3\text{Ibid., p. 70.}\]

When the decision is made to evaluate a prospective action, the short-run and long-run consequences of the action are considered.

The evaluative mode involves the cognitive act of balancing out the gratification-deprivation significances of various alternative courses of action with a view to maximizing gratification in the long-run.

\[4\text{Ibid., p. 71.}\]

Having discussed the way in which evaluation occurs in connection with any type of thought or action, we must go over the same ground in more detail with reference to social policies. In the above discussion we have laid a foundation by first sketching the nature of personality. Then we considered cognition, cathexis, and evaluation. We will now reconsider these three subjects in turn.

The cognition of a social policy and its consequences must occur prior to or along with its evaluation.\[5\text{It is interesting to recall in this connection that Charles Sanders Peirce insisted that the meaning of anything was neither more nor less than the sum of its consequences. This idea has had a profound influence on modern studies in the pragmatist tradition.}\]
its consequences must be objects in his situation as he sees it. If they are not already objects, evaluation is not possible until cognitive learning has occurred. In a democracy such cognitive learning is the objective of various response policies designed to make people aware of social problems and to stimulate their interest in solutions.

We have referred to the object situation as it is known to the actor, which suggests this might differ from the situation as known to an outside observer. "The most usual condition is for relatively few of the knowable properties of the object situation to be known to the actor."\(^6\) No doubt there are numerous objects in our situations including social policies and their consequences which we ignore. Our cognitions are guided by need-dispositions to abide by cultural values and standards of cognition. "These standards include those concerning the relevance of data and those concerning the importance of various problems. They also include those categories (often implicit in the structure of a language) by which observation and problems are, often unconsciously, assessed as valid."\(^7\) It is clear that these standards will influence whether a social policy is recognized as a significant object in the situation of persons involved. A democracy should encourage the development and learning of cognitive values which would help individuals to recognize
the significance of social policies as objects in their situation.

Cognition is always accompanied by cathexis. Both are aspects of action. "Each object of cognition is affected in some degree either by virtue of its intrinsic gratificatory significance or by virtue of its relationships to other objects of intrinsic gratificatory significance." Thus the consequences of a social policy as objects of cognition have intrinsic or derived gratificatory significance which are the elements balanced out against each other and integrated in the evaluation process.

Cathexis gives us these immediate gratifications or deprivations. It is guided by appreciative or esthetic standards or values present in the culture and interpreted for the individual through his interactions with groups. Social psychologists suggest that these standards have an immediate and intuitive rather than a deliberative application.

Let us turn our attention now to evaluation of policy. It always involves the purely intellectual activity of favoring or opposing a particular social policy. In many cases additional action might be involved in the evaluation. One might go to the polls and vote for or against the policy or for or against the candidates supporting it. One could join a group which stands for the policy, or discuss it with one's friends.
A summary of the evaluative process follows. For any particular consequence an individual can make an estimate of the long-run gratification or deprivation which will result. Considering all consequences the individual can strike a gratification-deprivation balance which will indicate the choice for or against the policy. If all of the consequences of the social policy which are objects of cognition of the individual are favorable or if all are unfavorable, the evaluative process is quite simple. One is for or against the policy. The real difficulty arises when, as is so often the case, some of the consequences are favorable and others are unfavorable. Let us consider an example.

Suppose that the individual realizes a particular social policy would facilitate his moving into a new role with the consequence for his object situation that his money income would be increased. This would be gratifying to a whole complex of need-dispositions illustrated by a need for and disposition to acquire certain expensive long-playing records. At the same time the individual might recognize a potential deprivation due to the inadequacy of his prospective object situation to gratify new need-dispositions which the new role would introduce requiring acceptance by certain social groups. On this basis the individual could strike a gratification-deprivation balance and evaluate the social policy.

The instrumentalism of the theory of action described in this study is a lineal descendant of pragmatism which in turn is a lineal descendant of utilitarianism. One may ask whether the
gratification-deprivation balance differs in any significant way from a pleasure-pain calculation of the earlier approach. The following statement by Parsons and Shils is pertinent.

To the actor, all problems may be generalized in terms of the aim to obtain an optimum of gratification. The term optimum has been chosen as an alternative to maximum. The latter is too involved in the traditional hedonistic fallacy which rests on the tautology that gratification is to be held both the result and the motive of action, even that which appears to be deprivational in its immediate consequences. It ignores the consequences of the interrelations of need-dispositions in systems which in cases of conflict often entail the inhibitions and hence deprivation of many particular need-dispositions.

\[ \text{ibid., p. 121.} \]

The following quotation states the relationship of evaluation to cognition:

The evaluative process in some sense transforms the function of the cognitive mode of motivational orientation. Abstracted from the evaluative mode, cognition is simply in the service of specific motivations or need-dispositions, being instrumental to their gratification. In conjunction with the evaluative process, cognition begins to serve not only the specific motives one at a time, but the functional harmony as a whole. The actor learns to take account of the consequences of immediate gratification; in the absence of evaluation he only takes account of how to arrive at that gratification.

\[ \text{ibid., pp. 70-71.} \]

Evaluation requires cognition not only of consequences but also of associated facts. It was suggested above that a consequence
for the object situation of an individual would be related to various relevant need-dispositions. This process will require more than the fact of the consequence. It will also require cognition of a number of additional facts which will help the individual relate the consequence to various need-dispositions. For example, the significance of the fact of a given increase in money income to an individual would depend not only on that fact but also on others such as the present size of his income, the size of his bank account, his other asset holdings, the extent of his short-term and long-term debts, his other prospects for increased income, and many other factors as well. This suggests that a particular consequence usually has significance only in relation to a number of related facts which are objects in the individual's situation and of corresponding need-dispositions.

It is illuminating to define a consequence from two different viewpoints. To a scientific observer, a consequence would be either a change in an object in an individual's situation or a change in one of his need-dispositions. From the viewpoint of the observed person these two definitions merge. If a person is aware of his own needs, they have become objects of cognition in his situation. The individual cognizes need-dispositions and their relations to their object.

Consequences are related to other objects in a person's situation in either of two ways. The first is internal to the
personality. The consequence is an object of one or more need-dispositions which relate internally to other need-dispositions and thus other objects. The second way in which a consequence is related to other objects is external to the individual's personality. A change in an object (consequence) may be tied to a change in another object by an external physical or technical cause or by actions on the part of other persons.

We will consider internal relationships in more detail by describing the various ways in which two or more need-dispositions are related. First, need-dispositions may be competitive. In that event their objects are substitutes. If a consequence increases the availability of an object and if its substitute is readily available, the enhancement resulting from the increased availability will be less than otherwise. If the substitute object is not readily available, the enhancement resulting from the increase will be greater than otherwise. Second, need-dispositions may be complementary in which case their objects are complements. A consequence which results in an increase in an object will result in a relatively large enhancement if the object which is a complement is also readily available. It will result in a smaller enhancement if the complement is scarce. A special case of complementarity occurs when need-dispositions must function jointly. In that event the objects of both need-dispositions must be secured to achieve gratification or avoided in the event they bring deprivation. Third, it often happens that separate need-dispositions are not related.
In that event their objects are internally independent except in the broad sense that all need-dispositions compete for scarce time and energy. An object which is internally related to a consequence may be called a concommitant of the consequence.

Not only may a consequence be related to other objects by the internal structure of the need-dispositions, but it may be related to other objects externally. A consequence which alters A in the object situation of an individual may affect other persons or things so that they bring about a change in other objects in our individual's situation. Suppose for example that object A is the money income of the individual referred to above. If this money income is increased markedly, other individuals may exhibit high regard for the person in question. Thus, recognition by others, a second object in the individual's situation, will have been externally altered. As an object of one or more need-dispositions, this change in recognition by others will have significance in terms of gratification or deprivation. Cognition of this further consequence will be useful in judging the gratification or deprivation effects of the original increase in income.

By a rough weighing process the individual making an evaluation must determine the gratification or deprivation of each consequence of a policy and strike a balance among them. An implication of this discussion is that except in simple cases the same kind of process must be applied to each consequence individually. The gratification or deprivation of the consequence must be determined by a
rough weighing of the internal concomitants and the external further consequences and by striking a balance among all of them. Thus, a consequence is evaluated by the same kind of formal procedure by which the policy itself is evaluated. This pushes the weighing and balancing procedure one step further back and illustrates forcefully the point that personality in the theory of action is integrated by evaluation. The alternative to integration and evaluation is an immediate and disjointed response to direct stimuli.

Cultural values are particularly important in evaluation.

The value standards are various recipes or rules (usually passed from person to person and from generation to generation) which may be observed by the actor in the course of this balancing-out procedure. They are rules which may help the actor to make his choice either by narrowing the range of acceptable alternatives, or by helping the actor foresee the long-run consequences of the various alternatives.  

\[\text{11Tbid., p. 71.}\]

The values of our culture or ethos are incorporated into role-expectations of groups and learned by individuals. Values indicate those objects which are worth striving for and those need-dispositions which should prevail or give way in case of conflict. Some values are simply facts about society known by the individual. Others play a more important role. They are internalized as need-dispositions or habits. Under appropriate circumstances these will cause the individual to experience a drive in the form of a need to observe the value and a disposition to apply it as a guide to measure
the gratification or deprivation of a particular consequence. Internalized values obviously play a crucial role in evaluation.

The long standing hedonist tradition in American economic thought leads many economists to think that decisions by individuals on questions of gratification and deprivation are entirely independent of other persons and that the individual "knows" in and of himself what his experiences are and what gratification or deprivation from them he is experiencing. Actually when the individual "looks within himself" to determine the gratification or deprivation caused by a particular action, he is often guided by need-dispositions which are internalizations of cultural values. Indirectly the gratification or deprivation is in large part culturally determined. One should hasten to add that the structure of values in most cultures is neither complete enough nor well enough integrated to provide detailed guidance to individuals. Furthermore, even assuming the culture's values are complete and integrated, the value-orientations or need-dispositions learned by individuals will be fragmentary to the extent that many questions of value will be left unanswered. Some of these gaps will be filled by particularized values developed through interaction of the individual in his own group associations. Some of his guides or measures of gratification or deprivation may be quite individual based on his own distinctive social experience or upon his physiological peculiarities. In any event one must emphasize that along with the determining influences from the individual's culture or sub-culture there are distinctive guides for evaluation.
associated with the individual's particular group memberships or even with the individual's own peculiar life history.\textsuperscript{12}  

\textsuperscript{12}Recognition of this "subjective" element in evaluation and choice accounts for Talcott Parsons's designation of the theory of action as a \textit{voluntaristic} theory of action.

A matter of major importance concerning evaluation remains to be discussed. There is a basic decision which must be made by an actor before any situation can have definitive meaning. This is whether to accept immediate gratification from an object without regard to consequences of the action and without regard to value standards which the culture provides, or whether to make an evaluation. Prior to any action this choice must be made. Whether the alternative of evaluation will be chosen depends on the particular situation involved and on the need-dispositions of the personality. In certain situations an actor will have a need-disposition or habit of accepting immediate gratification. In other situations the actor will have a need-disposition or habit of evaluation. But the actor must decide explicitly or implicitly, consciously or unconsciously, whether each case fits those classes of situations where cathexis alone rules or those where evaluation must be invoked.\textsuperscript{13}  

\textsuperscript{13}The authority for the necessity of this choice is Talcott Parsons and Edward A. Shils. They point out that the choice of whether to evaluate is the first of five dilemmas of orientation which must be resolved before a situation can have definitive meaning. They state, "The objects of the situation do not interact with the cognizing and cathecting organism in such a fashion as to determine automatically the meaning of the situation. Rather the actor must make a series of choices before the situation will have a determinant meaning." \textit{Ibid.}, p. 76.
In a social group the counterpart of a personality's need-disposition is a role-expectation. Individuals in groups fill roles which have requirements or expectations. To the extent that an individual fills a role successfully by learning it, he internalizes these expectations. They become need-dispositions or habits of personality. Here the point is that whether a person chooses to evaluate a social policy depends in large part upon whether one or another of the roles he fills requires that he carry out such an evaluation. The role of a clerk in a corporation probably does not require the evaluation of a change in the corporation income tax laws but the role of a corporation executive probably does. One reason for a democracy's encouraging "good citizens" is that this role often requires evaluation.

Group structures and role-expectations are often quite dynamic and may alter habitual dispositions to evaluate. For example, rapid changes in scientific, mechanical, military, organizational, or other techniques in the culture may present groups and individual personalities associated with the groups with new and serious problems requiring an increased emphasis on evaluation in role expectations. In a similar fashion a long period of stability and lack of change for the group might cause the requirement to evaluate to be dropped from many role expectations.

The fact that a conscious or unconscious choice whether to evaluate must be made before any action whatsoever is undertaken is a theoretical point of great importance in this study. It is not
meant to suggest that all actions are the results of evaluations for this is not true. However, evaluations are the mechanism for the integration of the personality and are the normal means for the resolution of conflicts among need-dispositions. A certain amount of evaluation of action is necessary for the continued functioning of a personality. The modern theory of action does not suggest that individuals are consistent, precise, and careful calculators of their advantage in all matters in the fashion sometimes assumed in economic theory. At the same time it suggests that people are not consistently irrationally as claimed by many critics of theory.14

14 The following points are given in reply to the charge that this chapter disposes too easily of the irrational factors in man's behavior. First, it would be consistent with the theory of this chapter to argue that for many individuals the habit of evaluation is evoked by relatively few situations. Second, the final evaluative decision is likely to be intuitive and quick rather than deliberative and careful. Third, evaluation may be based primarily on irrational considerations. Specifically, an evaluation may be no more than the balancing out of several cathexes and each cathexis may result from unconscious and irrational factors. Even the most deliberative evaluation will be based in part on these kinds of factors.

In a democracy evaluation of social policies should be encouraged and extended as evaluation offers the prospect of a better life. Is this an idle dream or is it possible? Since evaluation is a habit, it is learned. Since it is learned, it can be extended by education. It follows that a basic responsibility of education in a democracy is the encouragement of social policy evaluation.
What is the role of the economist vis-a-vis the evaluation of a social policy by an individual? What functions, if any, should the economist perform? Does the economist have any usefulness in this regard? The economist has an important role in education for evaluation. He enters the picture by providing statements of the consequences of social policies and facts about these consequences which are presumably superior to those arrived at by common sense. His functions relate to the cognitive aspect of action.

The economist's first and general claim to usefulness is that he attempts to assemble facts according to the rules of science. His empirical testing of the facts may be more accurate and more systematic than those of the individual in everyday life.

The economist can identify and explain consequences which the individual might not understand. He can provide related facts useful in determining the significance of a consequence for long-run gratification or deprivation. He can explore and interpret relevant cultural values. He can even suggest a final evaluation of a social policy based on a careful exposition of the evaluative process by which his decision is made. This will be suggestive only, as evaluation should be the individual's responsibility.15

15Too often in the past economists have believed that their scientific responsibilities required them to make the evaluation and choice regarding a social policy.

By study and analysis of the economizing and evaluating activities in the society, economists may often uncover consequences
and associated facts which have not been emphasized or which have an indirect and obscure relationship to the policy itself. Economists are fond believers in the idea that things are not as they seem. The justification for much economic theory is that it reveals otherwise hidden secrets. For example, classical and neo-classical economists pushed aside the veil of money to reveal the operation of the real economy. Actually, society is complex in its operation and one of the chief roles of the economist is to trace out indirect or obscure consequences of social policies.

Details regarding the role of the economist in connection with the evaluation of social policies will be added at appropriate points. The next chapter describes a model for the evaluation of a social policy by an individual. It is hypothetical but it has a certain usefulness.
CHAPTER IV

MODEL FOR THE EVALUATION OF A SOCIAL POLICY

BY AN INDIVIDUAL

This chapter will describe a model process for the evaluation of a social policy by an individual. It is based on and is an extension of the discussion of evaluation in the preceding chapter. Whereas that discussion was realistic, the model developed in this chapter is hypothetical. The process of evaluation followed by individuals would normally not even approximate this model. This is not to say that the model cannot be made to work. In fact, it has worked in hundreds of cases. The model works quite impressively for individuals in adult discussion groups having expert leadership. Likewise it works well for small groups of college students meeting for the purpose of discussing an evaluation of a social policy. Individual students can follow the model effectively and with real benefit in organizing reports. But after all this is said, it is still true that the model is not likely to be adopted by persons in the regular conduct of their affairs.

If the model is unrealistic, of what use is it? At least part of the answer is as follows. By being quite systematic and
organized, the model tends to make explicit some of the elements which are usually implicit in an evaluation. Thus it is useful as a reference particularly to a person wishing to make a most careful evaluation of an especially important matter. From the point of view of economics as a discipline, the model is useful as it throws additional light on the kinds of information from economics which individuals can use in evaluations. Further development of these points must, however, await the completion of the description and analysis of the model.

A Model of Evaluation

Imagine that we are working out an ideal process of evaluation. The process should be as effective as seems possible with our present knowledge of human behavior without becoming irrelevant to real life. We might suppose that an individual or a group of individuals is working with an economist and that the economist can draw on advice and information from other experts in the social sciences. The first phase of this ideal process of evaluation would be to seek out, state, and precisely define each consequence of the social policy under consideration.

In this chapter the concern is with the effects or consequences of a social policy which bear directly on the individual or individuals making the evaluation. In a subsequent chapter, certain complications arising from the fact that social policies usually have one or more effects on a particular group of persons
and certain entirely different effects on separate and distinct groups of persons will be considered. This chapter will be concerned with evaluations by individuals who are in situations comparable to the extent that the consequences of the social policy for each will be the same. Let us assume that these persons are typical non-farmer consumers.

**Determination of Consequences**

The first specific task facing an individual or a group working with an economist as consultant would be the compilation of a list of consequences or effects of the social policy under consideration. If every conceivable direct or indirect consequence was recorded, the list could be endless. Actually many effects are eliminated because they are seemingly quite unimportant. Others are never included because they are not known. The economic consultant would have suggestions as to consequences which might not occur to individuals as a matter of common sense.

Let us illustrate the compilation of a list of consequences of a social policy by taking a particular example. Consider a policy of supporting farm prices for six basic commodities at 75 percent to 90 percent of parity with the exact percentage of parity to be determined by the Secretary of Agriculture. The essential instruments for supporting the prices will be the purchase of the commodities in the market at support levels or the extension of non-recourse loans to farmers. In the latter instance the commodities involved
would be stored as collateral for the loans and be valued for loan purposes at support levels. For the present purpose we may adopt a general definition of parity as being the relationships which prevailed between the average of prices received for each of these commodities and the prices farmers paid for a representative selection of commodities and services which they bought. The relationship would be calculated for some specified time period in the past. Having stated the policy, what are some suggestions as to its consequences?

This policy is roughly the one supported by Secretary of Agriculture Benson during the administration of President Eisenhower.

The consultant might suggest that one consequence of this policy would be to increase the economic stability of our economy. By this he would be referring to increased stability of the average of prices in our society and the stability of total output and total employment at high levels. In contrast to this favorable effect the consultant might argue that this policy would have an unfavorable effect upon the material well-being of the persons involved, as it might encourage the use in commercial farming of economic resources which could be used more effectively to meet other and more pressing material needs of our society. One of the other social scientists might suggest that this policy would have a favorable consequence for stability in our social system in the sense of stable and peaceful relations among large social and economic groups.
He might point out that periodically throughout our entire history farmers have been a source of serious social unrest because economic difficulties seemed to press harder on them than on other large groups in our society. The economist might point out a fourth and adverse effect on our group of non-farmer consumers by noting that their material well-being would be lower than otherwise as a consequence of this policy because they might have to pay higher farm prices than in the absence of a policy of this sort. Also the individuals would pay taxes to cover the costs of storing these basic commodities and to cover losses which the federal government incurred on commodities which it purchased or which it took over on non-recourse loans.

So far four consequences of a policy of supporting farm prices have been listed. They are an increase in economic stability, an increase in stability in the social order, a decrease in material well-being through reduced economic efficiency and a decrease in material well-being because of higher farm prices and higher taxes. No doubt this list could be expanded; and if our individuals were farmers, it would be necessary to expand it. However, as an illustration of consequences for non-farm consumers this list could suffice.

Each consequence should be defined carefully and precisely to reduce the semantic difficulties which surround evaluations. No doubt the brief suggestion of a definition for each consequence given above would have to be expanded and qualified in practice.
In the preceding chapter it was suggested that a consequence be defined either as a precise change in an object in the individual's situation or a change in a need-disposition.

Along with the development of a list of consequences for a social policy an explanation and analysis of certain of the consequences would be necessary in an ideal process of evaluation. It was stated above that the farm price support policy would increase economic stability, that is, stability of average prices, total output, and total employment with the latter two at high levels. An understanding of this effect would require some knowledge of economic theory. As a minimum it would be necessary to explain that increases in government spending put a brake on economic recessions and reductions in government spending put a brake on price inflation. Government spending for farm price supports under this program would likely increase in a recession and decrease in a boom. Therefore, this policy would cause government spending to change in a fashion which would encourage economic stability as defined.

**Facts Relevant to Each Consequence**

Once a list of the probable and important consequences of a social policy has been compiled, and after each consequence has been defined and explained; the second broad task in an ideal process of evaluation can be undertaken. This is to determine and set forth as many as possible of the facts related to each consequence which
will help the person to estimate its importance to his gratification-deprivation balance. In the preceding chapter it was pointed out that a consequence of a social policy is related to various objects in the situation of the individual and to certain of his need-dispositions. This is to say that the importance of a consequence depends upon a number of relevant objects and habits. This classification is useful but it involves an ambiguity which should be noted. The ambiguity is that knowledge itself is always a matter of cognition. An observer can be cognizant of both objects in the situation and also the need-dispositions of the person observed. But the person himself can have knowledge of his need-dispositions only when he becomes aware of them, that is, only when they become objects in his situation. The distinction between knowledge of objects

2 This is in accord with the important concept in social psychology of seeing oneself as an object related to other objects (often other persons) in one's situation.

in one's situation and knowledge of one's need-dispositions logically is incorrect. The latter is included in the former. However, we will find the distinction useful.

Another preliminary point of some importance is the reminder that objects are so designated because they have a relationship to one or more need-dispositions. When for convenience we speak of a fact or object being relevant to or helping to determine the importance in terms of gratification or deprivation of a consequence, we are being elliptical. Gratification or deprivation is always a function
of a need-disposition and not of its object. It is the need-disposition not its object which involves the cathexis. However, it is convenient and useful to speak of objects as having significance in terms of gratification or deprivation.

To return to the matter at hand, let us consider a two-fold classification of objects in the individual's situation into value and non-value objects. First, the non-value objects or facts will be considered leaving aside for the moment the values which serve as guides to determining the importance of effects. Returning to our illustrative policy, there is a vast array of non-value objects or facts about objects which an economist could provide regarding each of the four consequences of the policy and which would help individuals in deciding on the importance of each consequence. He could provide at least rough answers to questions like the following. What are factors other than this policy which are likely to work either to increase or reduce economic stability in the near future and in the longer run? How large an increase in government spending would this policy bring in case of a slight farm depression? How large an increase would it cause in case of a serious farm depression? In terms of recent experience how much of the burden of forestalling a recession could this policy be expected to bear? How important is it in this regard?

Concerning stability in the social order, answers to the following questions would be useful. To what extent are the relations among large interest groups in our society secure and stable
at present? In particular, how secure and stable are the relations between farm groups and non-farm groups? Is there a threat of instability sufficient to require policy action? Are there any developments in contemporary society which are tending to obscure the distinction between farm and non-farm groups?

This partial listing of relevant questions could be extended to the other two consequences of the policy; however, these should suffice as an illustration of the type of non-value facts about objects which would be useful to individuals in judging the importance of a consequence.

The list of conceivable consequences of a social policy may be almost endless. One reason is that one consequence often leads to another. It seems expedient to list as a consequence only the first important effect of each separate aspect of a social policy. The further effects of these major consequences are objects and, if important, should be considered as facts which help the individual to estimate the importance for gratification or deprivation of the original consequence. For example, the farm price support policy which we are using as an illustration increases economic stability. However, the process by which it helps maintain stability when a recession is threatening involves deficits in the government's budget and requires an increase in the national debt. A budget deficit and an increased national debt are under appropriate conditions further results or effects of the process by which this policy increases economic stability.
Now let us turn to the other class, value objects. In the preceding chapter the role of cultural values in evaluation was noted. Group or sub-group values serve as guides to determine the importance of consequences of social policies. The identification and explicit consideration of such values would be part of an ideal process of evaluation. An example of a value which serves as a guide to determining the importance for gratification or deprivation of one of the consequences of the farm price support policy is as follows. It was suggested above that one consequence of this policy was an increase in economic stability but that this effect might have the further consequence of deficits in the federal government's budget and increases in the national debt. A value which is still an important ingredient in American culture is that the government should balance its budget and that the national debt should not be increased. Unquestionably this value would cause many people to minimize the importance of the favorable effect of this policy upon economic stability and might cause some persons to consider the entire effect in this area to be unfavorable.

The above discussion was concerned with objects in the situation of individuals which help them decide the importance of a consequence to which the objects are related. The following discussion develops the important point that a consequence of a social policy may be significant not because of associated facts about objects in the individual's situation but because of the need-dispositions of the individual.
A consequence of a social policy can change a need-disposition or habit by learning. A new need-disposition or habit may be acquired as a direct consequence of a social policy or indirectly as the resolution of a new and problematic arrangement of the objects in the individual's situation. For example, an individual who had experienced the great depression of the 1930's might feel a great need for job security and a disposition to cling to an old but inferior job because of fear that a new and better job might not be permanent. This is an habitual way of looking at one's job situation which has been widespread among older persons because of the depression. A realization on the part of such individuals that the farm price support policy further increased the likelihood of economic stability might lead them to eliminate this need-disposition. The individuals might be willing to change jobs because they had learned not to fear the loss of a new job. This might increase the chances that some individuals would have new experiences and locate in new jobs more to their liking with the final result that their gratification-deprivation balance was improved.

The significance of need-dispositions or habits for determining the gratification or deprivation of a consequence of a policy is not limited to cases which involve changes in habit. Established and unchanging need-dispositions are also important. Individuals are never aware of more than a fraction of such need-dispositions; but to the extent that they know their needs, this knowledge is important in conjunction with knowledge of the various changes in
their object situation suggested above. To the extent that one knows one's needs correctly, that information can be most useful in judging the importance of a consequence.  

3 However, it follows from the discussion of cathexis in the preceding chapter that it is not necessary for a need-disposition to be known for it to play an important role in action.

Psychology, social psychology, and other disciplines are supplying us with a growing body of objective knowledge concerning need-dispositions. This is useful. However, much of the knowledge regarding need-dispositions referred to in the preceding paragraph is peculiar to the individual involved. It is subjective, not having been defined and agreed to by people generally as an object of cognition. As the extent of knowledge which is subjective is probably greater in this matter of the structure of existing need-dispositions than in other aspects of knowledge relevant to the importance of a consequence, the usefulness of an economist, psychologist, or other expert consultant is probably less in this connection. In any case, in an ideal process of evaluation individuals should strive to consider not only the objects in their situations which make a consequence of a social policy important or unimportant, but also potential effects upon their habits.

Measuring the Importance of a Consequence

The third broad phase of an ideal process of evaluation is the measurement of the importance of a particular effect or consequence
of a social policy. The suggestions given under this heading are among the least likely of any of the suggestions made in this chapter to be used in practice. However, they are usable. The author has used these procedures repeatedly and with success in more than fifty separate discussion classes dealing with an array of social policies. The very fact that the procedures suggested herein for measuring the importance of a consequence are extreme and are quite likely to mark the outer limit to which groups or individuals might ever move in this direction in practice will be quite significant later in this study; as economists commonly assume a process of measurement of value which is far more extreme than that described here.

A basic difficulty in measuring the importance of a consequence of a social policy is to secure a unit of measurement. Many economists are likely to adopt the view of Alfred Marshall that economics was superior to all other social sciences and would always be so because it had available a unit for measuring the relative strength of motivations. Of course this unit was money. Later it will be argued that many of the shortcomings of economics are due to the persistence of economists in measuring only those values which seem to be measurable with money.

The suggestion of this study is that the unit for measuring the importance of the various consequences or effects of a social policy should be one of the consequences carefully defined. Its usefulness as a measure will be enhanced if it is an effect which promises to be neither the most nor the least important of the
consequences. Except for this stipulation it could be chosen at random from a list of consequences of a policy.

The unit of measurement would be used in the same fashion as any other unit of measurement, that is by making comparisons. If we are using an inch as a unit to measure a distance which happens to be half of one foot, we may compare the distance with the unit and conclude that the former is six times the latter. In other words, the distance is six inches. In an ideal process of evaluation we compare the importance of a second consequence with the importance of a first consequence which we have chosen as a unit of measure. Then the importance of a third consequence can be compared with the importance of the first. This process can be continued until each consequence in turn has been compared with the one used as a measure.

This can be illustrated by using the example of the four consequences of the farm price support policy stated above. Suppose we choose the favorable consequence on economic stability as our measure. In turn we should compare the importance of the unfavorable effect upon material well-being because of taxes and higher farm prices with the favorable effect on economic stability; the unfavorable effect upon material well-being through reduced economic efficiency with the favorable effect upon economic stability; and the favorable effect upon stability in the social order with the favorable effect upon economic stability.

The question immediately comes to mind as to how the measure should be applied. In other words how should the comparison be
stated and recorded? Can we say that the unfavorable consequence for material well-being due to taxes and higher farm prices is six times as important as the favorable effect upon economic stability? This is impractical. Although psychologists believe that the human mind is generally capable of scaling or measurement into as many as seven classes or categories,\textsuperscript{4} such precision is impossible here.

\textsuperscript{4}The authority for this statement is Dr. Harry Bahrick, Professor of Psychology, Ohio Wesleyan University.

Extensive experience with discussion groups attempting to follow an ideal process of evaluation suggests that three classes or categories are the most that are usually feasible. These categories are described below. First, after careful review of the various associated facts and need-dispositions which seem relevant to the importance of a consequence, one may make the subjective judgment that a consequence is very roughly of equal importance with the consequence used as a measure. Alternatively, one may conclude that the consequence is probably of significantly greater importance than that of the measure consequence. Or, one may conclude that the consequence is probably of significantly less importance than that of the measure consequence. Experience suggests that this is about as far as one can go in making accurate comparisons. Very often the information available will be so inadequate and so complex and confused that one attempting a judgment must say he doesn't really know how the consequences compare in importance. If this turns out to be
the case, one should probably conclude that for all practical pur-
poses the consequence in question is of roughly equal importance
to that of the measure consequence.

The reader probably does not need to be impressed with the
complexity of the process described here. However, the following
analogy is suggestive. Many measurements or comparisons are relatively
easy. One might choose a particular length of two-by-four inch lumber
as a unit of measure. With practice it would not be too difficult
to estimate that a second board was double or triple or half the
length of the two-by-four used as a measure. The measurement used
in this analogy is far too easy to be taken to correspond with the
measurement of the importance of the consequence of a social policy.
The following analogy is more suitable. Assume that one is standing
at a given spot in a valley and that by-looking off in various direc-
tions one can see hills of various heights and shapes and distances
from the observer. Suppose one was asked to give some suggestion
of the volume of earth in each of the hills. This would be a really
tough job. One might designate each of the hills and choose one
as a basis for comparison or measure. Then one might say for each
hill in turn that it was either significantly larger or roughly
the same volume or significantly smaller than the hill being used
as a measure. Without resorting to very complex engineering proce-
dures this is about as accurate as one could hope to be. However,
estimating the volume of the hills by sight under these circumstances
is probably a simpler problem than estimating the importance for
gratification or deprivation of the consequences of a social policy.

Some critics might argue at this point that this ideal
process of evaluation calls for comparisons between different kinds
of consequences which are not in any way comparable. This argument
must be denied. It is tantamount to arguing that individual person-
alties must by the nature of things be seriously unintegrated. We
do in fact integrate our personalities by evaluations which involve the
comparison of radically different types of consequences of particular
actions. For better or worse we must rely on the individual for
judgments as to the importance of consequences of policies. He can
and commonly does compare consequences which an expert observer
might be quite unable to compare conclusively on the basis of gener-
ally agreed upon facts.

**Final Evaluation**

The topic of the fourth and final phase of the discussion
of an ideal process of evaluation in this chapter is the summary
and conclusion of the evaluation. Although the usual practice of
evaluation will not involve techniques for measuring the importance
of consequences as described in the third phase of this chapter, it
is worth while to consider how an evaluation can be concluded on the
basis of these techniques. There are two broad alternative approaches.
First, after having measured the importance of each consequence fol-
lowing the procedure described in the preceding section, the
individual can make an immediate and intuitive conclusion regarding the policy. This is quite feasible. The second broad approach is much less likely to be used, but if one wishes to test an intuitive evaluation it can be followed. It is described below.

Suppose one has decided that the decrease in material well-being through reduced economic efficiency is roughly equal in importance to the increase in economic stability; that the decrease in material well-being due to taxes and higher farm prices is significantly more important than the increase in economic stability; and that the increase in the stability of the social order is significantly less important than the increase in economic stability. In each case importance was judged with reference to gratification in the case of favorable consequences and deprivation in the case of unfavorable consequences.

To conclude a logical evaluation, the favorable consequences should be balanced against the unfavorable consequences with each having an implicit or explicit weight. For example, if we say that a policy has three favorable effects and two unfavorable ones and that therefore the policy is good, we have implicitly given a roughly equal weight to each consequence. A relatively heavy weight for each of the two unfavorable consequences would cause us to decide against the policy. If we wish to be quite systematic, the weight of each consequence should be made explicit. For example, we could do this by giving the effect used as a measure a weight of two. We would also assign a weight of two to any other consequence or
effect which we deemed of roughly equal importance. An effect or consequence which is judged significantly less important would be given a weight of one and a consequence judged significantly more important would be given a weight of three. With this system of weights and with the measurements of importance assumed above, we would assign plus two to economic stability, plus one to stability in the social order, minus two to material well-being through reduced economic efficiency and minus three to material well-being as affected by taxes and higher farm prices. The conclusion of this formalized evaluation is a matter of arithmetic. The weighted sum of the favorable consequences is plus three, and the weighted sum of the unfavorable consequences is minus five. The policy seems to be clearly undesirable to the individual in our example.

The assumptions behind the numbers used above for weights are that a consequence which is significantly more important than the measure consequence is half again as important and that a consequence which is significantly less important than a measure consequence is half as important. If we used the number designations two for the measure consequence, one for a consequence significantly less important, and four instead of three for a consequence which is significantly more important, we would still be assuming that the consequence significantly less important is only half as important as the measure consequence, but we would now be assuming that a consequence of significantly greater importance than the measure consequence is actually double its importance. To take another
example one could use the numbers four, five, and six respectively as weights for effects from least to most important. This would greatly reduce the emphasis placed on any differences in the importance of effects and would mean that the final evaluation would be determined to a greater degree by the number of favorable consequences versus the number of unfavorable consequences. Considering the crudeness of the underlying measurements, it would be better to use weights that emphasize differences while resorting to equal weights in all cases of doubt.

Extensive experimentation has confirmed that this obviously extreme process of measuring the importance of consequences and summarizing and concluding an evaluation with explicit weights can be used quite effectively. Participants in such a highly formalized process quite often enjoy it and feel it is worth while. Generally, the participant's conviction regarding the reliability of the evaluation is very much increased. The number who are not at all sure about a policy is sharply reduced. There is no tendency for this process to result in greater agreement on the evaluation. On the contrary, the process often results in much sharper disagreement, although among those who agree the arguments are much more consistent. All of this comes to saying that under proper circumstances, rationality and logical procedure in evaluation can be learned and practiced. One has the impression that this experience really sharpens and improves the intuitive evaluations to which participants revert in actual practice.
As a practical matter one would not expect individuals to go through a formal process of measuring and weighing the importance of effects as described above. At best, one would expect a person to consider a policy and some of its consequences at the same time considering some of the more important reasons why the consequences are important or unimportant. As a part of a unified process, the individual probably would make an intuitive evaluation based on a cognitive and immediate review of the policy, some of its consequences, and some of the major facts regarding the importance of consequences. The first and second phases of evaluation described in the chapter would be more or less explicitly followed. That is, to some extent the individual would first recognize the policy and at least some of its consequences, and second, he would at least briefly consider facts relevant to their importance. However, the third phase, the systematic measuring of the importance of effects, would be entirely omitted. The fourth phase, the summary and conclusion of the evaluation, would be an intuitive and immediate review of the first and second phases terminated by a conclusion.

The intuitive decision regarding a social policy may be accompanied by the operation of a number of mechanisms of personality. Very often when the policy being evaluated involves a serious conflict of need-dispositions, the inhibition of the need-disposition which loses out is practiced. This amounts to saying that a decision in favor of the policy requires the checking of a contrary need-disposition. It is inhibited or not allowed to result in action. A very
crude example is as follows: the decision to favor a policy of farm
price supports might require the inhibition of a need-disposition
to purchase and consume more and better grades of meat. The reason
might be that a higher price for corn with a resulting higher price
for beef might make it necessary to forego the satisfaction of this
need.

Another mechanism of personality which might operate along
with the evaluation is substitution. Substitution is the process
of transferring the cathexis which is part of a need-disposition
from an old to a new object. In the example given above it might be
that a substitution would occur along with inhibition. The object
of the inhibited need-disposition was higher quality meat. It might
be that a more expensive automobile or better grade clothing or
home furnishings could be substituted for better quality meats as
an object of this need-disposition.

In more serious conflicts between need-dispositions, mechani-
isms of defense such as rationalization, isolation, or repression
might be resorted to. However, in the case of a policy of farm

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5Rationalization is a distorted perception. A goal is "seen"
to be cathected by one need-disposition when actually it is cathected
by another. Isolation is the refusal to cognize and cathect an ob-
ject in terms of one need-disposition while it is being cognized
and cathected in terms of a conflicting need-disposition. In re-
pression a threatened need-disposition is cut off from the rest
of the personality system. See Parsons, pp. 135-136.

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price supports it is likely that the conflicts would have to be
much more serious than most of those which would arise for non-farmer consumers before these mechanisms would be involved. However, it is likely that these defense mechanisms would operate in the case of certain farmers who are strongly oriented toward individualistic values.

To conclude, it is clear that what is called in this chapter an ideal process of evaluation is a very rough and crude affair and that actual processes of evaluation tend to be much more rough and ready. Yet these chapters have suggested that individuals can learn to evaluate in a larger share of the cases where evaluation would be useful, they can learn improved processes for evaluation, and they can be supplied with improved materials for making evaluations. These conclusions offer some hope for a democracy in which each individual judges the social policies that affect him.
CHAPTER V

THE SOCIAL DECISION TO INITIATE A POLICY:
PRIMARY GROUPS AND GOVERNMENTS

We have now discussed processes of evaluation by an individual and have made suggestions for improving or extending these processes. If anarchy were workable and if society were no more than the aggregate of individuals with each acting independently of others, we would need go no further with our economic analysis of social policy evaluation. We could turn immediately to a discussion of the implications for the functions of economics which arise out of the discussion and analysis of the preceding chapters. However, we are social beings and action growing out of evaluation is always in some sense social. Our analysis cannot stop with the processes of evaluation by individuals. We must consider the relationships between individual evaluations and group actions or policies. The task is to analyze the processes by which decisions to initiate social policies are reached and the relationships of these decisions to the moral judgments or evaluations of individuals.

Relevant Cultural Values

To decide on and implement a social policy requires power. But the availability and use of power is structured by the culture, particularly by the ethos or values in the culture. Therefore, it
is appropriate to begin the discussion of the social decision to initiate a policy with a consideration of certain cultural values.

If one were required to state the value which is basic or ultimate in our culture, one might suggest the phrasing, enhancement of the individual or the worth and dignity of the person. The supreme worth of a person as a value does not always rule in our culture, but both our professions of belief and our actions suggest that it often governs. It has a long history. In the Hebrew tradition man was created in God's image. Athens under Pericles was committed to the equality of citizens in forming state policy. Roman law developed various protections for the individual and this element of Western culture was reinforced by Stoicism which taught that all men are subject to a law of nature and are equal. Jesus taught a profound respect for personality and Christianity has greatly strengthened this tradition. John Locke, Thomas Jefferson, and other leaders in the Enlightenment influenced American culture and strengthened the position of this basic value. Despite numerous aberrations and exceptions, it seems clear that enhancement of the individual is the basic or ultimate value, not only in American culture, but also in the culture of Western civilization.¹

¹The brief history of this value is based on Loyd D. Easton, Ethics, Policy, and Social Ends (Dubuque, Iowa: Wm. C. Brown Company, 1955), pp. 191-201. Vilfredo Pareto was one of the first to suggest that a hierarchy of values leading up to a basic value is necessary for the functioning and integration of a complex society. See Talcott Parsons, The Structure of Social Action, p. 707.
What is meant in this study by the enhancement of the personality? The answer given in preceding chapters is an increase in gratification or a reduction in deprivation or both. The enhancement of the gratification-deprivation balance is not entirely an immediate matter, but may involve at least a minimum of evaluation.

There are certain corollaries and implications of the acceptance of the individual as the basic value. These will be spelled out and, it is hoped, strengthened by suggesting their more consistent application. These corollaries are present in American culture; however, sometimes in case of conflict they give way to values with lesser credentials. This does not inevitably detract from the usefulness of this study. As necessary, the conclusions of this study can be modified by taking account of other values.

If the dignity of the individual is our basic value, we might ask, What individual? The traditional answer to this question has been every single person. Each must count. If so, it seems that each should have the opportunity to determine what happens to himself. Our culture includes the idea that evaluation by the individual should be his responsibility as well as his privilege. Complementary to this is the element in our culture which puts a value on rationality and intelligence and freedom of inquiry.

Another implication of taking each individual as the basic value is as follows. One individual should not be required to bear the cost of a benefit to another individual. One might accept such a cost but it must be done willingly. We are here referring to
costs in a net sense. It would be appropriate for an individual to bear the cost of a benefit to another if, in return, he received a benefit which in his judgment more than offset the cost.

A closely related idea discussed earlier in this study is that bundles or sets of policies should be undertaken only if they benefit all persons affected. One policy will be judged costly

or undesirable by certain people. Another policy will be judged desirable by these persons but undesirable by another group. At the same time the second group judges the first policy to be desirable. Neither policy can be adopted alone without benefiting some at a cost to others. But if the two policies are taken as a bundle or set, all are benefited. With reference to the basic values, it is appropriate to adopt both policies but inappropriate to adopt either alone.

Note that the basic value requires a kind of altruism. One's concern must be not just the enhancement of one's self as an individual but the enhancement of every individual. In the example in the preceding paragraph, persons in both groups would receive the largest gain if only the one policy they favored was adopted. As compared with this situation, each individual receives a smaller benefit when both policies are adopted.
This altruism is not based on the idea of one individual giving others what he thinks they should have and withholding what he thinks they should not have. On the contrary, the set of policies concept is based on the idea that each person judges what he wants and does not want and that he concedes this privilege to others. The altruism involves receiving a smaller net gratification because one allows others their benefits on their own terms.

This recurring theme that we must not make evaluations for others but must ask them for their own evaluations runs through this study. It not only derives from important values in our culture as noted above, but it is necessary in the light of the process of evaluation. As noted in the preceding two chapters, there is an inescapable subjective element in evaluation. Only the person himself knows what is best for him. This makes it impossible for one to say what is best for another.

The suggestion that a bundle or set of policies should not be adopted unless each individual is benefited in his own judgment is an ideal. In practice, we can only hope that almost all individuals will be benefited. Those who take extreme positions may not be benefited. In fact, they may be committed to institutions. The alternative to this breach of observance of the basic value is almost complete failure to act for anyone's benefit. It is conceivable that the literal application of the rule that all must benefit from a set of policies would preclude the adoption of policies absolutely necessary for the functioning and continuance of society.
This discussion highlights the point that the greater the unity and integration of the values in a culture, the easier it is for democracy to be achieved. For example, values in present-day French culture seem so poorly integrated and so much in conflict that the continuation of democracy in France may become problematic.

Several points can be made by way of summary before turning to the question of social decisions on policies. The basic value and its implications as discussed above are not only ideals but are actually applied with some consistency. Thus they are a basic element determining whether particular power arrangements can be established and whether they can be maintained. In one sense the purpose of the following discussion is to elucidate and clarify the relations between certain social groups, having power to initiate policies, and these values in our culture. If successful, this would throw light on the practical meaning of these values and at the same time suggest directions for power changes.

Definitions

There are several definitions and distinctions which should be established so that the analysis can proceed effectively. We will be concerned with more or less formal groups having the power to initiate sets of social policies having effects or consequences. A social policy is a course or line of action initiated by a social group. A group is a more or less formal and continuous association of persons ranging from an informal clique which functions intermittently to a group permanently associated by contractual or blood
ties. The group may be large or small. The criterion for inclusion is that members share in the power to decide on and initiate policies. On this basis it is possible that at a given time persons might have formal but not actual membership in a group. Also members of a large formal organization may combine into various groups to discharge particular functions, that is, to initiate and administer particular policies. In case of certain basic policies, power may be shared by all members. The distinction between formal and actual membership should be kept in mind as it will not be reiterated with each reference to initiating groups.

A course or line of action implies that the action is repeated. Toward one end of an imaginary continuum actions become more repetitious. The other end is marked by single actions. Policies constitute a broad zone extending to the former end. At the same time a second continuum may be visualized which extends from actions by single individuals at one end to actions by extremely large groups at the other. Social policies are a broad zone which excludes only the former end of the continuum. In regard to these two continua, social policies gradually shade off into single actions by individuals. There seems to be no important gain from emphasizing this distinction, since most of the analysis is applicable to all actions. Thus reference will often be made to "social policies and actions" although the major concern should be with social policies as defined.
Certain of the consequences of sets of social policies may be felt only by persons inside the initiating groups. In contrast, it might be that each of several policies in the set had a different initiating group. In this case there would probably be effects between initiating groups. The policy of one group would have effects on the members of another and vice versa. It is also likely that a set of policies will have effects on persons who are not members of any initiating group. For example, the policies of several corporations might have effects on many buyers in remote places. To recapitulate, a distinction will be made among consequences inside, between, and outside initiating groups. This classification will prove quite useful.  

Non-leverage policies discussed in Chapter II have primarily inside-group or between-group effects. Leverage policies have effects which bear primarily on people outside initiating groups.

Primary Groups

A distinction between primary and secondary groups has been used previously. A primary group is relatively small and is characterized by informal, face-to-face relationships. A secondary group may be larger and is characterized by formal and impersonal relationships among its members. The modern period of history has seen the rapid growth of secondary groups.

Much can be learned about the process of initiating a social policy by studying primary groups. They provide good examples of
social policies with important consequences between initiating groups. Before considering this subject, consequences inside the group will be considered.

Traditionally, economists have assumed that primary groups are homogeneous units taken to be the equivalent of an individual. They speak of the consumer and the business firm. This eliminates the problem of possible differences in evaluations by members of the groups. For example, it ignores differences of sex, age, and function which are important in families, and ignores the question whether each member has power to influence policy decisions. An important exception to this tradition has been the valuable analysis in consumer economics related to economy of means. Of course, if we treat a primary group as an individual, the problem of economy of means becomes the problem of individual evaluation discussed in the two preceding chapters.

The most important effects of policies initiated by primary groups are usually between-group effects. The policies and effects are commonly determined and agreed to by contracts and are limited and defined by property rights. Suppose that a small architectural firm, a partnership, agrees to provide plans, blueprints, and specifications to an engineering firm for a new office building. In return, the engineering firm agrees to provide its services as consultant to the architects in the planning and construction of a local school. This arrangement is set up by contract. The architectural firm is a group which initiates a policy of supplying plans and specifications
to the engineering firm. The plans and specifications are the major consequence of the policy. The engineering firm is a group initiating a policy with the principal effect the supplying of consultation and advisory services to the architectural firm. Each primary group has initiated a policy which has a principal consequence for the opposite member.

The nature of between-group effects are usually structured and limited by the judicial definition of property rights. These rights form part of the framework within which contracts are negotiated. The architectural firm has certain property rights in the plans and specifications which it has prepared. These rights will limit the uses which the engineering firm will make of its plans. At the same time similar provisions apply to the materials which the engineering firm supplies to the architects.

The two policies may be looked upon as a set of policies. Neither group would want to supply its services without something in return. Taking the two policies together as a set, they are evaluated favorably and supported by both groups. It follows that this arrangement is compatible with the value in our culture to the effect that sets of policies should not be undertaken unless all or nearly all persons affected favor the policies.

An important aspect of the process being illustrated involves bargaining. Commonly, the details of the policies would be worked out by a process of bargaining. If the bargaining is hard, the participants on both sides may be forced to make their evaluations
carefully. They may be forced to reconsider the importance of the favorable effects which they receive from the other group as compared to the unfavorable effects involved in providing their services. Therefore, their evaluations might tend to be more realistic.

Another implication of the presence of bargaining concerns the net benefit of the policies undertaken to each group. If the two sides have something like equal bargaining power and bargain effectively, the result would tend to be an equal and just division of the net benefits of the policies. The bargain would tend to settle somewhere near the terms which would give each group roughly the same benefit, having allowed for the adverse effects of providing its services. If one side has the preponderance of the bargaining power, it may appropriate most of the net benefits for itself.

The reader has no doubt realized that the negotiation and bargaining which result in a set of policies beneficial to each of two groups is the process usually referred to in economics as exchange. We have been describing an exchange between two primary groups, both of which happen to be businesses. The exchange described is unusual in that it is a barter exchange. Exchanges between primary groups such as households, business proprietorships, or business partnerships are usually money exchanges. One primary group is the seller and initiates the policy of providing products, labor, or something else of value, and the other primary group is designated the buyer and initiates a policy of paying money. These facts are mentioned late rather than early in the discussion to illustrate the
point that the money exchanges are really a particular species of a broad genus.

This concludes the discussion of the effects of policies between initiating groups. Next is the consideration of the effects of policies of primary groups on persons outside initiating groups.

Persons who have no formal or informal relationship with any primary groups initiating a set of policies may be affected by these policies. Because of the small size and limited power of a typical primary group, its outside effects would probably tend to be slight and unimportant. Taken in the aggregate there may be many primary groups having effects of a certain type; but even in these circumstances, effects would tend to have slight importance because their incidence would be diffuse and random.

For isolated cases where outside effects are serious and unfavorable, individuals adversely affected can seek remedy in court under the common law. Statutory or common law is used to curb or eliminate exceptional outside effects of general and widespread importance. This is often done by altering property rights. A classic example in American history was the gradual evolution of our laws regulating banking. The important point in this connection is not the regulation to improve relations between banks and their depositors or borrowers. These are between-group matters involving contract. Rather the point here is the regulation of banking practices in the interest of the public generally by such means as limiting the issuance of currency.
Orthodox economists down to the present day continue the tradition of earlier economists who considered the economic system to be composed mainly of primary groups. The unrealistic assumption in micro-economics that the economy is made up of primary groups partially explains the lack of interest in effects inside initiating groups and the great emphasis on exchange which involves between-group effects.4

4Traditional economists concentrate on exchange and the "market." They have seldom been concerned with production or consumption beyond the law of diminishing returns and the implications of rational choice respectively. Even distribution has been an aspect of the process of exchange to these economists.

The nature of outside effects of groups of policies initiated by primary groups is implicitly assumed to be random and diffuse in most traditional micro economics. Discussion of ad hoc exceptions to this assumption is probably one of the chief characteristics of neo-classical economics in England and the United States.5 Pigou's famous smoking chimneys suggesting a difference between social and private costs is the classic example of an exceptional outside effect which is neither unimportant nor diffuse. Private costs result from unfavorable between-group effects subject to private contract; whereas social costs arise from adverse outside effects (smoke pollution of the air in this case). "Prof. Pigou's second type of divergences
arises when the production of a commodity gives rise to incidental uncharged services or uncompensated disservices to a third party who is neither its producer nor consumer. . . At an earlier stage

6Tbid., p. 179.

in his writing J. R. Hicks provided another relevant example. He was the spokesman for a group of welfare economists assuming that outside effects of exchanges could be ignored because they tended to be random and unimportant. On this basis Hicks argued that one could judge actions purely on the basis of efficiency without regard to justice.


A system composed mainly of primary groups has an advantage which has been expounded persuasively by economists like Frank Knight. 8


This is the close correspondence in such a system between individual evaluations and the resulting actions or policies. People in small primary groups can decide what should be done and proceed to do it, often by entering into contracts. Such a system facilitates moral responsibility. It also facilitates freedom in the sense that, possibly to a greater extent than in the case of secondary groups, one can decide what one wants and act to get it.
On the other side of the ledger is the fact that a completely atomistic social structure of primary groups is not compatible with many elements in modern life. There are serious doubts as to whether a system of primary groups can be as effective in advancing technology as a system with large secondary groups. In any event, such a structure does not now exist in any society with an advanced technology. As our culture has evolved certain values have become desirable or have seemed more attainable in the context of secondary groups. For example, art galleries now are usually secondary groups. Likewise as world culture has developed, threats to our culture have arisen which require that we rely on secondary groups. Defense against communism is an obvious example. Secondary groups actually dominate much of our social life.

There are those among economists who place such emphasis on the importance of the advantages of an atomistic social structure that they would be willing to give up many of the advantages of secondary groups. Economists like Henry Simons would adopt radical government policies to encourage primary groups and to require secondary groups to act like them. For example, they would in many cases break up large corporations into smaller components or curb the power of unions.9

There are still important areas within which primary groups are dominant. The favorable consequences of primary groups should be kept in mind when occasions for their encouragement arise.

**Secondary Groups**

Secondary groups are important from the viewpoint of all three types of effects. Between-group effects of sets of policies are often the most important class of consequences in connection with primary groups. Almost invariably between-group consequences are present to some extent in secondary groups and in some cases are the most important type. In that event the analytical differences between the two types of groups may not be pronounced. However, in many other secondary cases, inside-initiating-group effects or outside-initiating-group effects or both are more important.

The numerous policies in which the outside effects of secondary groups are important have an interesting relationship to leverage policies described in Chapter Two. This relationship depends upon the purpose or broad objective of the secondary group. Many large secondary groups have important outside effects that are incidental to inside effects such as the profit, personal advantage, or pleasure of members. Other large secondary groups, usually non-profit or governmental groups, may have important inside effects but are organized primarily to achieve outside effects. These are the groups which undertake leverage policies, and they hold a peculiarly important place. Of course, many groups are mixtures of these two types.
The discussion of secondary groups that follows will consider the characteristics and significance of three representative examples. In the first, inside effects tend to be most important. In the second, outside effects are relatively the most significant. The third has both of these types and also between-group effects on a significant scale. The first example is a private club or association; the second example is the federal government; and the third example is corporations and labor unions.

**Private Associations**

Clubs or private associations are good examples of secondary groups initiating policies with primarily inside effects. The principal policy effects are felt by the members. These groups will often have incidental outside effects as a result of "good works" or other activities and they will have between-group effects involving contracts for supplies, facilities, and so forth.

Private associations are often quite democratic. The important inside effects are commonly decided by vote of the entire membership in attendance at a regular meeting with procedures stipulated by a constitution and bylaws. It seems probable that many of the private clubs or associations which survive tend to enact sets of policies which have the support of all or nearly all the members.

It is often said that Americans are joiners. Private clubs and associations are quite prominent in our society. However, from the point of view of economy of means, this particular class of
secondary groups does not raise major issues. In part, this is apparently the result of the fact that the activity of these groups is often traditional and ritualistic or in the nature of sports and is not amenable to an empirical check regarding efficiency. However, taken in the aggregate, any particular classification of clubs or private associations may raise serious external questions of racial or religious discrimination involving issues of justice and opportunity. These issues will not be discussed in this study although the subsequent analysis of justice and opportunity would be relevant.

Governments

The next class of secondary groups is tremendously important from the point of view of evaluation and economy of means. It has its most important policy effects primarily outside the initiating group. The best examples are non-profit associations with a public purpose such as education or charity and governments. As noted above these are the principal secondary groups which initiate leverage policies.

The federal government is the basis for the discussion that follows. As many of the subjects discussed below are usually the concern of the political scientist, the treatment will be brief. However, a number of ideas on this subject are integral to an understanding of social decisions to initiate policies.

Various components of the federal government initiate policies which have important inside effects. For example, the alleged
Authoritarian operation of many federal government bureaus has been a recurring issue. Also, the federal government is party to between-group effects on a vast scale. The procurement contracts negotiated under the jurisdiction of the Department of Defense alone come to a staggering sum. However, from the viewpoint of this study, the outside effects of federal government policies are the most important and we will concentrate on these.

This discussion will be concerned with various ways in which initiating groups within the federal government frame their policies in response to the evaluations of individuals throughout our society. In considerable part this is a matter of power. Various groups in the federal government have extensive powers to initiate policies. In what ways is this power responsive to individual evaluations? How does a group of like-minded persons secure representation for their position in the initiating group?

It is obvious that ultimately the right to vote gives the individual such control as he has over his government. The right of voters to choose among presidential candidates is one basis for control of government in response to the evaluations of diverse groups. Actually, the choice is between the candidates put forward by the two political parties. This might seem to be a narrow choice. However, to win by a safe margin both candidates and their parties must attempt to make an almost universal appeal. Each side tries assiduously to bring together a very broad set of policies which will receive almost unanimous support and very little opposition.
minority positions are taken into account. Thus, it is not surprising that the presidential candidates of the two major parties end up taking almost identical positions on a broad range of issues. Likewise, the platforms of the two major political parties are usually masterpieces of compromise and have only minor and unimportant differences. By this process various interests are taken into account.

Congress brings together a large number of elected representatives, each of whom tends to be responsive to one or another of the slightly or extremely different positions which people may take on government policies. Consider the case of a basic and important policy which affects most of the population but is evaluated in widely differing ways. The very fact that Congress has a large number of members and that they come from various sub-cultures increases the likelihood that each group having a different evaluation of the policy will have a spokesman. The geographic nature of representation in Congress often contributes to this end.

Both the President and Congress are subject to pressure by interest groups and lobbies. It is conceivable that these can assure that the interests of groups taking particular positions on policy decisions will be felt when otherwise these might be ignored. For example, the members of a group taking a certain position might be spread throughout the country so that they are a very small minority in each congressional district or state and might be too small a group in the aggregate to be a significant factor in presidential
campaigns. Particularly if their evaluations of certain policies are quite different from those of other groups, they may be ignored. A lobby might save them from this. On the other hand, lobbies may endanger justice. Through expenditure of funds or by other means a particular group may influence policy decisions to the extent that its members receive a greatly disproportionate share of the benefits of a set of policies.

Administrative agencies in the executive branch of the federal government also tend to represent certain groups of people in our society. The representation of certain farming interests by the Department of Agriculture is an outstanding example. Much of the power of such agencies must derive from their influence with the President or the Congress based on voter support.

Our federal government uses various procedures to enhance or protect the power of minorities. This increases the likelihood that sets of policies will be framed which take into account the evaluations of small as well as large groups. If each person's evaluation is to count, small groups of individuals holding distinctive evaluations must have representation in the initiating group with power equal to the larger groups. The following are examples of policies designed at least in part to achieve this result. First, normally a bill becomes law when it is passed by a simple majority of both houses of Congress and it is signed by the President. If the President vetoes a bill, it can still be enacted as law if two-thirds of the members of both houses of Congress vote to override
the veto. Note the power that this gives to slightly more than one-third the members of Congress when they are supported by the President. Second, the ratification of a treaty by the United States Senate requires a two-thirds majority. Third, a small group or even a single Senator can forestall the passage of a bill by resort to a filibuster. The procedure for ending a filibuster is a difficult one. It provides that two-thirds of the Senators present and voting must agree to end the filibuster. Fourth, the ratification of an amendment to the United States Constitution requires a favorable vote of three-fourths of the States. Thus slightly more than one-fourth of the States can stop an action that they oppose. Fifth, the traditional emphasis on open hearings and free discussions of issues as part of regular governmental procedures gives a minority a chance to make its views known and to muster support. Open hearings of congressional committees are an example.

In the discussion of primary groups above, important functions were suggested for bargaining. Bargaining with and testing the strength of opposition groups is an everyday occurrence in the federal government.\(^{10}\) This is particularly apparent in Congressional activities. Bargaining here serves the same useful purposes which it advances in the case of primary groups. If the bargaining is hard, it tends to enforce realistic and careful evaluations on the part of
the groups represented. Unless a particular group has a preponderance of power, it may be forced to acquiesce in distinctly unfavorable policies in order to get the policies which it desires. Often times a reappraisal of both the favorable and the unfavorable policies is necessary before the participants in the bargaining can safely conclude that the policies taken as a set are really desirable.11

11 Similarly, traditional economic theory assumes precise and realistic evaluations as a result of atomistic competition wherein a bargainer is forced to concede the most and take the least. Otherwise, the bargainer would be replaced, the bargain struck, and the small advantage gained by another primary unit.

In the case of primary groups, the bargaining was between the groups. In the case of the federal government the bargaining often occurs within the initiating group between persons or groups invested with power and representing groups of people receiving outside effects. Initiating groups of Senators or Congressmen or of political appointees in the executive branch are excellent examples. The latter often bargain indirectly through the Office of the President with the result that he adopts a policy somewhat pleasing to all of the groups represented.

The upshot of these procedures tends to be sets of policies responsive to individual evaluations and thus supported by all groups affected. One might object that if this is true of Congress, why are not most bills passed almost unanimously rather than by moderate or even by slight majorities? The answer hinges on the point that any particular bill is likely to be only one among a fairly large
number in a set. Many members of Congress who are in the minority voting against a particular bill will appear in the majority voting in favor of another bill in the same set. They favor the set because the latter bill outweighs the former. The objection might still be raised that there are members of Congress who are quite consistent and always appear in the minority voting against the bills on a particular subject. Apparently all the bills are undesirable to them. Fundamentally the answer to this objection is the same. If we were to detail all of the policies in a set concerning a particular subject going back through history to identify those long since established and taken for granted but which are part of the set, we would likely find that these individuals represent groups which are favorable to such an all-inclusive set of policies. These groups and their representatives in Congress may have opposed all of the policies added to the set in the last twenty years, but they may still favor the entire set. Otherwise, our political life and social fabric would be less stable and direct and extreme actions would more often occur. Of course, this ultimately becomes a matter of classification. Usually consideration would be limited to current changes in policy, but the set can be extended to include all government or even social policies. If any sizable minority in a democracy is opposed to all the policies of the society taken as a set, there is serious danger of civil strife.

This discussion of the federal government as a secondary group initiating leverage policies with important outside effects
could be considerably extended. However, it is hoped that enough has been said to suggest how the rather widespread knowledge of the federal government can be articulated in terms of federal government decisions to initiate policies in accordance with individual evaluations. Likewise, it is hoped that the points made will provide the basis for suggestive parallels in discussing other secondary institutions. The succeeding chapter is devoted to two major secondary institutions in American life today, the modern corporation and the labor union.
CHAPTER VI

THE SOCIAL DECISION TO INITIATE A POLICY:
CORPORATIONS AND UNIONS

This chapter will consider two secondary groups of major importance, the corporation and the labor union. Both are characterized by the fact that they can and usually do have large and important effects in each of the three categories we have been using. That is, they have large and important inside effects on the members of their initiating groups, large and important effects between groups, and major outside effects. In contrast in the last chapter it was suggested that primary groups tend to have slight, diffuse, and random outside effects, whereas the outside effects of governments are usually quite important. It is certainly in the areas of inside and outside effects that the recent rapid growth of corporations and unions has brought a fundamental change in our society. It is here that economists have the greatest need to catch up with events.¹

¹The economist John R. Commons used his unique theoretical system for an extensive and revealing analysis of the major secondary groups in our society. Although the analysis in this phase of the present study has many counterparts in Common's work, it is not in any direct sense based on or derived from his writing.

The Corporation

The first task in analyzing the corporation is to identify
the group which initiates the corporation's policies. There has been an important change in this regard which was noted a quarter of a century ago by Berle and Means in their major study of the corporation. They noted the separation between the ownership and the control of the corporation. In earlier times the power over the corporation and its property and the power to control its policies had resided in the stockholders or owners. With the passage of time the power and control over the corporation's policies had passed primarily to the professional and hired management. Thus, the initiating group within the corporation is made up of the hierarchy of professional management.

Professional management is such an extensive and diverse group in many of the large present-day corporations that policies affecting members of these groups may raise serious problems. Here the basic issue of these two chapters arises again. In this context it is the question of the responsiveness of this group to the evaluations of members receiving these inside effects. Is the group responsive to the evaluations of individuals within it? This immediately raises an important question of democracy versus authoritarianism. As the boss symbol suggests, the internal management of American business has been traditionally authoritarian. Scott Buchanan makes the following observation.

The charters of private corporations are remarkably reticent concerning the rules required for their argument.
internal government; each corporation improvises
its by-laws and its table of organization beyond
the minimal requirement that there be a president,
vice-president, a treasurer, and a secretary. When
charitable corporations grow in size and function
they tend to differentiate their organs and function
more or less in the fashion of their predecessor and
mother, the Church. They provide for executive,
legislative, and even judicial divisions. The busi-
ness corporation shows on the other hand the pattern
of an ameba increasing to the size of a whale, but
with no sharp differentiation of organs—either this
or a series of fissions and fusions in colonies, such
as the parts of General Motors each with strong oli-
garchic controls within and weak federal connections
with each other. It may be that there is still the
implication of oligarchy in a plutocracy, and an
incompatibility with democracy, but it would be inter-
esting to see if replacing the Sherman anti-trust law
by the assurance of a republican form of government
to all private corporations would not take the strain
off the heavily pressed executive and hasten the
present tendency of the business corporation to accept
more community responsibilities.\(^3\)

\(^3\)Scott Buchanan, The Corporation and the Republic (New York:

Berle makes the following comment on the same subject:

Herein lies, perhaps, the greatest current weak-
ness of the corporate system. In practice, institu-
tional corporations are guided by tiny self-perpetuat-
ing oligarchies. These in turn are drawn from and
judged by the group opinion of a small fragment of
America--its business and financial community. Change
of management by contesting for stockholders' vote is
extremely rare, and increasingly difficult and expen-
sive to the point of impossibility.\(^4\)

\(^4\)Adolf Berle, Jr., The 20th Century Capitalist Revolution
It is certainly the case that if the democratic values emphasized in this study become increasingly important and are more consistently applied, moral responsibility for intra-group matters must be encouraged and extended. This appears to be one of the important challenges facing corporations in America today.

The between-group effects in corporations usually involve the professional managers on the one side and stockholders, unions, suppliers, or buyers of various descriptions on the other side. Whether any of these groups are inside or outside of the corporation as the term is generally understood is unimportant in this connection. The point here is that they are outside of the initiating group in the corporation and that they develop sets of policies with this group on a contractual basis.

Consideration of the stockholder group raises interesting questions because of their former position of control. Berle and Means noted that the courts have consistently upheld the property rights of the stockholders. They hold the sole rights to the property of the corporation; the manager group is legally their fiduciary agent, and presumably the corporation is to be operated for the sole benefit of the stockholders. However, through the contractual arrangements making the corporate managers the agents of the stockholders, the corporate managers have been able to take over power even to the extent of diverting sizable amounts of profits to their own control. In effect, the managers provide the stockholders with part of the profits of the corporation and receive in return funds for the
In the bargaining which occurs between professional managers and stockholders in determining the details of their relationship, the corporate managers have the advantage of having the actual control of the organization. On the stockholders' side, the power derives from the basic fact that the stockholders have the property rights to the corporation's assets. On occasion this power can be mobilized at the stockholders' meetings. Proxy fights may constitute a threat to the power of the entrenched management, particularly if the battle is organized as a raid to take over the management. To the extent that the corporation does not finance itself by undistributed profits or capital consumption allowances, stockholders have the threat that they will turn elsewhere by selling their stock certificates. In case the corporation needs or will need outside funds this could have a seriously adverse effect on the sale of new securities. Furthermore, it would probably be taken by the interested public as a sign of failure on the part of the management group.

The between-group effects of contracts with labor unions will be discussed separately below. Professional management usually contracts with suppliers of professional or white-collar services from individuals who are not members of unions. As these individuals rarely have power commensurate with that of corporate management, their bargaining strength, if any, must rest on the traditional basis
of rivalry among employers.

Corporate management has between-group contractual relations with almost every description of suppliers of materials, equipment, construction, and various sorts of special services. The fact that corporate management may have bargaining power as a buyer vastly greater than that of earlier primary groups was recognized by the Robinson-Patman Act of 1937 which was designed in part to curb this power when applied to small sellers and to restrict the ability of the large buyer to secure discrimination in price and other terms of sale in its favor.

Another important set of between-group relations is those between corporate management as seller and various groups of buyers. If sales are to other businesses on contract, we are simply looking at the same relationship described in the preceding paragraph from the opposite side. To the extent that the sales are to households or other small primary groups acting as consumers, the terms of sale are usually set forth on a take-it-or-leave-it basis by corporate management. Because of this and the fact that the implicit contract is usually so casual and fleeting, it is best to consider the effects of the policies of corporate management on consumers as outside rather than between-group effects. Small retailers and even an occasional small wholesaler might be included with consumers for this purpose.

The outside effects of corporate management arise in two ways. First are effects from policies initiated and decided by a single corporation or group of corporations. Capital investment programs,
research and technical policies, political action policies, and policies regarding gifts and community relations are possible examples. A second group of outside effects arise from between-group policies. Price contracts with either buyers or suppliers and wage contracts with labor unions are good examples. In terms of purpose, either of these two groups of policies may be undertaken either with primary consideration to outside effects or to one or both of the other classes of effects with little or no consideration for outside effects. For example, the outside effects may be a primary consideration in community relations policies; whereas, capital investment policies may be undertaken in the light of internal considerations without reference to important outside effects.

The basic question of these two chapters takes the following form in this context. What power do outsiders have to check the power of corporate management and to require that corporate policies be shaped partly with reference to the evaluations of affected outsiders? Does society provide any effective arrangements for the formulation of corporate policy in the interests of the general public?

First, what are some of the sources of corporate power? The power of corporate management to initiate policies is based ultimately on a corporate charter issued by a state government. Policies are facilitated and sometimes limited by property rights defined by the courts. In a formal way corporate power is based on government policies. Corporate management attempts to protect and strengthen these powers, oftentimes by lobbying and sometimes by other forms of
political action. It attempts to shape the ideas and values in the culture regarding government-corporate relations for its benefit by means of institutional advertising and public relations. However, much of corporate management's day-to-day power derives from corporation ownership of the major portion of the business assets in our society. It also derives power from its ownership and control of research and technical facilities.

The power of the general public to make its evaluations felt in the determination of corporate policy is based in part on the extent of its control of government policy. "Congress at times operates to correct outrageous decisions made by the private legislative process of the factory community." The question of extent and effectiveness of this power takes us back to the issues raised in the preceding chapter concerning the responsiveness of government to the evaluations of individuals throughout society. An important issue is the extent to which this responsiveness is nullified by corporate power. On occasion, the numerically small group of corporate managers have power vastly greater than the large group in the public subject to the outside effects of corporations. Although corporations were creations of government, they seem to have acquired a life of their own. Certainly the share of major social policies initiated by corporations has increased. The public's political and governmental power by no means assures it of sufficient control of corporate
policies. "We do not know which regulates or controls which, when it comes to government and business." 7

7 Buchanan, p. 17.

A second source of power for the public is an economic veto. The public may be able to influence corporate policies by abstaining from purchases from or, in some cases, sales to corporations. This is the classic solution to the problem of public control of business. In its conservative form the traditional approach to economics considered almost all important policies to be initiated by businesses and assumed that business policies were subject to control by consumers. In this particular idealized society, consumer sovereignty bringing maximum real income was the basic value. There are a number of ways in which present-day society differs from this ideal. Three stand out. First, the likelihood of resorting to a veto is lessened by the fact that in many instances few alternative sources of supply are available. Rather than turning to one of many alternative sources of supply, a person may find it necessary to give up a product altogether and this may be an unpleasant course of action. In traditional terms this is the problem of the absence of competition. Second, except in extreme cases, an economic veto can be applied only to certain corporate policies. Specifically, it can be applied to product and price policies and possibly to wage policies. Except for the unlikely situation in which the public becomes genuinely outraged, an economic veto is not likely to relate to any policies
not associated with individual transactions with individual members
of the public. A boycott seldom occurs in response to a corporation's
capital expansion policies, the activities of its lobbyists, or even
to inept public relation policies. Third, an economic veto is less
significant to the extent that corporate management can control consum-
ers' choices by advertising. In fact, one interpretation would be that
advertising is potentially a means of shaping individuals' evaluations
regarding all types of corporate policies, thus making irrelevant the
question of corporate policies responsive to the evaluations of the
public.

Another source of the public's power to influence corporate
policy is social sanctions. For example, the status and position
accorded corporate managers by the public was much different during
the 1950's than during the 1930's. The widespread belief that many
of the difficulties of the depression were caused by business abuses
resulted in a generally critical attitude in the earlier period.
Corporate management was under considerable pressure to frame policies
with an eye to their defense.

The question of social sanctions leads us to the point that
all sources of the public's powers vis-a-vis corporations are deter-
mined ultimately by the ideas and values in our culture. Here we
are faced with a cultural lag. The folkways and mores of the American
people include many concepts and values concerning the role of business
which were more or less appropriate at a time when primary groups
dominated our business life, and when outside effects of business
policies were much less important than they are today. The moral issue of corporations in a democratic society requires a serious educational endeavor to overcome this lag. This would constitute a response policy to change widespread ways of thinking and acting.

Present-day corporate leadership with its talk of social responsibility is uneasily aware that it is functioning without an adequate moral justification. The various concepts regarding competition which are still regularly invoked by business leaders do not meet this need. A basic point emerges here. In general, competition is an effective moral regulator only in the case of between-group effects. More effective competition would probably result in more appropriate terms in contracts between groups. For example, it might well result in lower prices for products bought by small buyers. But to contend that capital accumulation in our society should be determined by all the various decisions to save, would require one to ignore the important outside effects on standards of living and military defense which result from corporate investment decisions. Nor would competition automatically guide the evaluation of policies concerning corporate financial responsibility for education, resource conservation, smoke abatement, water pollution, and other major issues involving the public. It should be added that governmental anti-monopoly policies are useful primarily in regulating between-group effects. Without radical alteration they would not be an adequate means of regulating outside effects. The reason is simply that the anti-trust approach
is based on ideas of competition and between-group relations which are only incidentally relevant to outside effects.

A basic moral issue facing our society is the responsibility of corporate management for the effects or consequences of their policies. "Observable throughout the world, and in varying degrees of intensity, is this insistence that power in economic organization shall be subjected to the same tests of public benefit which have been applied in their turn to power otherwise located."^8

^8Berle and Means, p. 353.

It is conceivable, . . . indeed it seems almost essential if the corporate system is to survive, that the "control" of the great corporations should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity. 9

^9Ibid., p. 356. For a more extensive discussion see pages 352-357.

In terms of this study the problem has several aspects. One is to establish more firmly in our culture the value that the policies of large and powerful secondary groups should be framed in response to the evaluations of all persons affected. This is a typical problem involving widespread social habits of thought and response policies. Second, the scientific and ethical questions of evaluation must be further clarified. Third, inventive genius should be applied to developing power arrangements which
will assure that corporate management is responsive to evaluations of affected individuals, particularly individuals in the general public.

... where a corporation has power to affect a great many lives (differing from the little enterprise which can be balanced out by the markets) it should be subject to the same restraints under the constitution that apply to an agency of the federal or state government. In that case the Bill of Rights and the Fourteenth and Fifteenth Amendments would apply. At the moment this is one jump ahead of current law. Yet it seems probable that this will be the next phase—just as we already have the constitutional doctrine that under the First Amendment you may not by private contract prohibit a Negro from buying land.10

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10A. A. Berle, Jr., *Economic Power and Free Society* (New York: The Fund for the Republic, 1957), pp. 17-18. For a discussion of the same idea see Miller, p. 12. Berle's contrast of corporations to "little enterprise which can be balanced out by the market" parallels the contrast in this study of between-group effects of primary groups and outside effects of secondary groups.

In America at present it seems a fair guess that the socialist solution of making corporate leaders into government officials will not be attempted on a wider scale. However, the federal government will likely play an important part in arrangements that may be evolved. Already, conservative Republican senators have required major steel company executives to appear before congressional committees to justify increases in the price of steel. Whatever form these checks may take it seems clear that unless and until these arrangements are worked out, corporate management will be standing

\section*{Labor Unions}

The other major secondary group in modern society which will be discussed is the labor union. Its development parallels that of the modern corporation in several significant ways. The fact that labor unions not only have important between-group effects, but also inside and outside effects is of major importance.

The first task is to identify the initiating group or groups in labor unions. The initiating group is often the formal or informal union leadership. Whether this is a broad or narrow group depends on the particular union in question. For some purposes the relevant leadership will be that of the local union. For many policies it will be the leadership of the international union. In some instances it will involve both, but it will seldom involve the national federations as major power resides in the international unions and their locals.

Rank and file union members who attend union meetings, vote, and generally participate in union activities should probably be
classified as members of the group initiating union policies. Less

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12 Commons referred to the union leaders and active members as "the activity" borrowing the term from the Amalgamated Clothing Workers. He estimated that it constituted 10 percent of union membership. See John R. Commons, The Economics of Collective Action (New York: The Macmillan Co., 1951), pp. 33-34.

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active members might be excluded; although it may be convenient to include them in the initiating group even though they do not exercise power if they experience the same effects from union policies as more active members. Furthermore, a person who is inactive in regard to certain issues may become active in regard to others.

The phrase, union democracy, suggests a parallel between inside and outside effects. The arrangements within large secondary groups for responding to the evaluations of inside effects of members often parallel governmental arrangements for responding to citizens' evaluations of outside effects. As noted earlier in this study there has been an historical interplay here. Many arrangements in American government were based on the organizational experiments of various Protestant churches. More recently, private

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secondary groups have patterned their organization after one or another aspect of government. Particularly in the past, corporate management has often been organized along military lines. Today, with its use of committees, it sometimes resembles a government bureau.
Most union locals and internationals have constitutions, bylaws, provisions for regular meetings and elections and for voting rights of members patterned after the executive and legislative branches of government. The formal organization of most unions seems adequate to provide union democracy. \(^{14}\) The major problem is probably to improve and extend member evaluations and participation.

Between-group effects may arise from sets of policies which are negotiated by two or more union groups. Jurisdictional policies are an important example. However, the largest number of sets of important policies having between-group effects are established by collective bargaining between unions and management concerning the provisions of union contracts. The widespread use of union contracts in industry is of quite recent origin. It resulted from the establishment of the right of unions to bargain collectively by the National Industrial Recovery Act and the Wagner Act in the 1930's. Many of the legal principles and practices concerning contracts and property rights developed under the common law in connection with interbusiness bargaining seemed inadequate or inapplicable in this new context. A considerable body of statutory and administrative law has been built up in connection with the activities of the National Labor Relations Board and other government agencies concerned with unions. Just as the courts have had considerable difficulty in

\(^{14}\)For a discussion of proposals to improve union democracy see Clark Kerr, Unions and Union Leaders of Their Own Choosing (New York: The Fund for the Republic, 1957), p. 23.
applying the traditional concepts of contract and property to corporations,\(^\text{15}\) these quasi-judicial agencies have also had their difficulties.\(^\text{15}\)

\(^{15}\) See Berle and Means, p. 336. Also see Berle, Economic Power, pp. 16-17.

In part, the reason is the same in both cases. Because of the very large size of the secondary groups involved there are not only some difficult problems of regulating inter-group effects of action but serious outside effects are inextricably involved. For unions these problems often arise in their most acute form in connection with strikes and lockouts. These are presumably weapons which labor and management use against each other. The "right" to strike reflects our traditional emphasis in economics on between-group relations. Yet strikes and lockouts have profoundly important outside effects which in certain cases may make them quite intolerable.

Outside effects of union policies arise not only from between-group policies such as strikes, but also in connection with inside-union policies. In fact, many public relations policies initiated within unions are undertaken explicitly for their outside effects. Internal policies that pertain to racketeering and crime have important outside effects as do the often laudable internal union policies...
concerning community participation and education. Between-group policies with management concerning wages, hours, and working conditions have important outside effects related to such matters as prices, productivity, and employment.

To turn to the basic theme of these two chapters, what power do members of the general public have to make their evaluations of outside effects influential in determining union policies? Government policies can restrict or shape union policies to make them more responsive to the public. A major purpose of the Taft-Hartley revision of the Wagner Act was to control and limit certain outside effects of union policies. This type of political check will likely remain much more important than economic checks on union policy. An economic veto by consumers of the products produced by the members of a particular union is usually not feasible. Social sanctions may be more effective. The decline of militant unionism and the increased security of the position of unions in our society may allow union leaders and members to be more cognizant of the reactions of the public to specific union policies. Arrangements for increasing the responsiveness of unions to evaluations on the part of the public will require changes in widespread social habits among workers. Appropriate concepts and values must be nurtured in our culture.

Unless we wish to rely entirely upon governmental policies, labor leaders must emphasize economic statesmanship and rank-and-file union members must support it. Important educational (response)

17To the extent that corporate management retains an authori-
tarian structure, it will not have to face the problem of maintaining the political support of its constituency. This might make the path to economic statesmanship easier for corporate management. Over a period of years Sumner H. Slichter has reiterated the theme of the necessity of a responsible labor movement. For an example see his "Labor After the War," Postwar Economic Problems, ed. Seymour E. Harris (New York: McGraw-Hill Book Co., Inc., 1943), pp. 251-55, 261-62. For the leadership problems which face union officers see Arthur M. Ross, "The Trade Union as a Wage-Fixing Institution," The American Economic Review, XXXVII (September, 1947), 566-588.

policies are needed in this area.

From the viewpoint of this study the moral basis for labor unions in America is not secure. The concept that union moral responsibility should be solely to union membership is quite inadequate because it ignores the moral implications of major outside effects. Thus, when we speak of preserving freedom by solving all union-management problems by collective bargaining, we are deceiving ourselves. Collective bargaining conducted in the interests of the two participants can be an effective means for controlling between-group effects but no more than this. Likewise, for the same reason, making labor unions subject to the anti-trust laws does not solve the basic moral issue. To some it would be a desirable means of redressing the balance of bargaining strength in management's favor. But as in the case of corporate business, it does not handle the question of outside effects. If collective bar-

18 Anti-trust policy could be used to eliminate unions and smash corporate enterprise into many fragments. This would attempt to solve the problem of outside effects by eliminating them.

gaining is to meet the moral issue, it must be bargaining which
takes the public interest into account in numerous ways not yet devised.

An interesting complication which may have considerable influence on the future of unionism in America is the fact that unions and corporate management must in some way accept responsibility for the outside effects of the contracts they negotiate. It may be that corporate management has opened what is from its viewpoint a Pandora's box by laying the responsibility for so-called inflationary price increases of their products to higher wages negotiated with unions. Walter Reuther has made the obvious reply to this kind of argument. He suggested that labor and management in the auto industry approach their wage negotiations subject to the stricture that automobile prices be somewhat reduced. It seems that management had asked for this proposed usurpation of one of its prerogatives. It is clear that unions and management should share responsibility for the outside effects arising from their negotiated agreements. This likely foreshadows further union participation in certain areas of management. In an affluent society where bread-and-butter unionism may have a diminishing appeal, unions may have here a substitute appeal which will offer status to the workers joining unions. The following observation is relevant at this point.

... the next stage or moment when the labor union applies for corporate membership in the big corporation whose directors grant annual tenure and salaries, pensions, and the power of veto on the corporation instead of the right to strike. As a result, the
corporation is a government by and with the consent of the workers as well as the stockholders.¹

¹Buchanan, p. 14

In the last chapter the argument was noted that a society of primary groups promotes freedom and moral responsibility. What is the relationship of large secondary groups to freedom? Freedom implies choice among need-dispositions and among their objects. In the first place choice might be possible within a fixed set of objects making up an individual's situation. In the second place choice might require changes or manipulations in the objects of an individual situation. Such changes might require only unilateral action on the part of the individual or his primary groups. He might satisfy a need by personal manipulation of objects in his situation. However, in our modern, complex, and interdependent society, changes in objects often must be the result of joint efforts on a large scale. These joint efforts are actions or policies. It follows that freedom to choose for individuals often must rest on the responsiveness to their wishes of secondary groups initiating policies. In this sense the subject matter of this chapter concerns a vitally important aspect of freedom, quite possibly the most important aspect in our world of group action.

Whether one agrees to include the ideas of these last two chapters within the subject matter of economics, economics as a social science must be concerned with them. A realistic analysis
cannot ignore this subject. Likewise, it cannot ignore questions of justice and opportunity discussed in the next two chapters.
CHAPTER VII

SOCIAL POLICY DECISIONS AND JUSTICE

Economics is concerned with economy of means to secure desired ends. In a democratic society this requires both knowledge and evaluation of means by individuals. Since means are often implemented by groups, the relationship of the individual's evaluation to group action is important. In the last two chapters the control which individuals in various circumstances could exercise over group action has been considered. Implicit in the discussion were further questions of the relationships among the individuals concerned with a group action. These are questions of justice which will now be explored.

Justice and the Individual

Ideas of justice derive from the basic value in western culture. In philosophic terms this value is the dignity and worth of each individual. In psychological terms it involves an enhancement of the gratification-deprivation balance for each individual. This basic value, if accepted, suggests as a preliminary that good effects of policies should be available to each person and that bad effects should bear on every person receiving the good effects.
It would seem that the acceptance of each individual as the ultimate and ruling value with all other rules and values subordinate would leave no ground whatsoever for preferential treatment of certain individuals. It seems that either each individual should be treated in an identical fashion or if any are treated differently, they should receive treatment which is in their judgment the equivalent of that received by others. In substance, treatment should be the same. Justice in the sense of identical treatment can be objectively ascertained. In the sense of equivalent treatment it requires evaluation and introduces a subjective element. Our society uses rules of justice for determining whether differential treatment is actually equivalent. These rules raise serious problems which will be discussed in the next chapter. As objective justice (identical treatment) can be ascertained with much greater reliability, and as it avoids complex problems of evaluation, it is generally to be preferred to subjective justice (equivalent treatment). Unfortunately there are numerous cases in which identical treatment may be impossible and equivalent treatment must be utilized.

**General and Particular Effects**

With identical treatment, good effects of policies should be available to each person and bad effects should bear in the same way on each person affected by the policies. This is the basis for a distinction between general and particular effects. A general effect is one which bears in the same way on each person affected
by a policy or on a random group of such persons. Each person subject to the policy will be affected by it in the same way or have a roughly equal chance of being so affected. General effects are just in the sense that each person will receive identical treatment. Particular effects are available to or bear in the same way upon only part of the individuals affected by a policy. A particular effect relates to one policy or one set of policies. Whether a particular effect is just is a question which must be answered with reference to all policies having the effect. If, when we bring together all policies having an effect, we find that everyone concerned is subject to it; the effect fits the definition of a general effect. It is available to and bears upon all persons involved in the policies in the same way. The effect which was a particular effect of one policy or set of policies, turns out to be part of a general effect when considered in connection with all relevant policies. It therefore meets the standard for objective justice. The persons involved are either gaining something which others already have or losing something which others have already lost or have not had at all.

An unjust particular effect is one which remains particular and partial even when all relevant policies are considered. The persons affected are receiving something which others do not have or are losing something which others retain. For example, even if we consider all public projects involving condemnation of property, only a particular part of the persons affected in any significant
way by public projects have property subject to condemnation proceedings. Thus, owners of such property are an example of recipients of an unjust particular effect.

In contrast, under certain circumstances special assessments against property owners to pay part of the cost of street improvements adjacent to their properties might be just particular effects. The policy of paving or improving a particular street which was a thoroughfare would have potential benefit for all members of the community. These benefits would be a general effect. The special assessments against owners of adjacent properties along the thoroughfare would be an adverse particular effect. However, to the extent that other property owners in the community also live on thoroughfares and are subject to comparable assessments, this is a just particular effect. In effect, when the street maintenance and improvement projects of the community are considered as one overall policy, the special assessments which are a particular effect from the viewpoint of any given street project turn out to be a general effect bearing on each and every property owner in the same way.¹

¹Before this illustration could be accepted as an adequate analysis, one would have to explore questions regarding persons living on unimproved streets not subject to special assessments who regularly use and benefit from improved thoroughfares, renters living on improved thoroughfares who may under certain circumstances pay rents which do not cover the special assessments, and non-residents benefiting from the use of the thoroughfares.

The idea of just and unjust particular effects has some interesting implications for the legal concept of reasonable classification.
As an American jurist has remarked, the very essence of legislation is classification; and as the courts have repeatedly asserted, the purport of the "equal protection" clause is merely to require that when statutory classifications are made, they shall be reasonable with respect to the end sought, and that all persons or things standing in substantially the same relation to the law shall be treated alike.  

Persons subject to a just particular effect (part of a general effect) constitute a class which is reasonable in that they stand in the same relation to the law or policy as all other persons. Individuals subject to an unjust particular effect would not be a reasonable class as they would not stand in substantially the same relation to the law or policy as all other persons. They are the special recipients of an effect which others subject to the same policies do not experience.

This leads us to the important matter of the relationship between just and unjust particular effects and the proper procedures of evaluation. First, let us consider just particular effects. If it is an adverse consequence for its recipients, this fact should be ignored and should not be used as an argument against the policy. The reasoning behind this stand is as follows. An adverse but just particular effect takes away something which others have already lost or have not had. The loss is just. However, ignoring such an
effect may be quite difficult in practice. Recipients may be hard to convince that their loss is just. Our courts may help in this process by denying damages in cases at law or relief in cases of equity brought by persons subject to adverse and just particular effects. Likewise, the courts may uphold the constitutionality of laws which are challenged as violations of the constitutional guarantee of due process as the result of such effects. In any event, it is desirable that these adverse effects be ignored in the social decision to initiate a set of policies.

In case a just particular effect is favorable to its recipients, it should be considered as an argument for the set of policies. In so far as we are consistent in following the dictates of our basic emphasis on each individual and the resulting concept of justice, we should approach the matter in the following way: persons receiving these effects should consider them in making their evaluations. By definition, all other persons will be already receiving this same effect as a result of some other policy which is already in force. Other persons should attempt to estimate the importance of this favorable effect and consider it as part of the evaluation of the policy in question. In this way they will be attempting to put themselves in the position of persons who would receive this just and favorable particular effect as a result of the set of policies being evaluated. This procedure increases the likelihood that as a matter of justice all other persons will evaluate the policy favorably.
If the persons who are already receiving the favorable effect in question tailor the new policy so that the just particular effect is omitted, our courts in the pursuit of justice might act in one or more of several ways. The courts might award damages to persons deprived of benefit. They might provide relief possibly in the form of an injunction to stop the execution of the policy; or they might under appropriate circumstances declare the law implementing the policy unconstitutional.

This matter can be placed in perspective by pointing out that a just and favorable particular effect may be quite incidental to a set of policies and unimportant as compared to other effects. At the other extreme, the particular effect may have very great importance as compared to any other effects. In that event the achievement of justice would be the main consideration regarding the policy, and it might be conveniently designated a "justice" policy.

Next consider the question of unjust particular effects. Justice dictates that all unjust particular effects should be remedied. However, if the effect is favorable, there may be arguments against pursuing justice too vigorously. Unjust but favorable particular effects which are incidental to a set of policies favored by all, might be ignored unless the particular effect was quite large or tended to make the set of policies significantly less favorable for those subject to general effects only. In point of fact, a large favorable effect for a few often will be costly to people generally.
Almost without exception, it is desirable to remedy an unjust and unfavorable particular effect. A limited group should not be required to bear the costs of a benefit to all.

Unjust particular effects (favorable or unfavorable) can be avoided in one of three ways. The set of policies involved can be altered so that the effect is either eliminated, generalized, or offset. Altering the set of policies or turning to an alternative set may make it possible to achieve the desired general effects without the unjust particular effect. In case the effect is unfavorable this is usually the best solution. It is simple in the sense of being a matter of objective fact. In contrast, if possible, a favorable unjust particular effect should be extended to all persons affected by the set of policies.\(^3\) This solution generalizes the effect and also has the advantage of being objective and simple.

It may be impossible either to eliminate or generalize an unjust particular effect. The recipients may have a special and necessary relationship to the policy in question. For example, a longer term of duty for technicians may be absolutely necessary to the policy of an accelerated program of development and stockpiling of modern weapons systems suggested in Chapter One. This

\(^3\)Justice would require that, if no other solution is possible, an unjust and unfavorable effect should be extended to all even though it would reduce the likelihood that the set of policies would be judged favorably.
would mean that some other solution to the problem must be found.

The third means to avoid an unjust particular effect is an equivalent-offset policy. These fall into two classes. In one, the offset policy charges people generally and compensates those subject to an unjust and adverse particular effect until all are on the same footing. In the other, the offset policy compensates people generally and charges the recipients of a favorable but unjust particular effect until all involved are on the same footing. If the problem of an unjust particular effect must be solved by an equivalent-offset policy, there must usually be both a compensation and a charge.

The acceptance of each individual as the ultimate value in our culture requires that the equivalence between an adverse unjust effect and an offsetting compensation or between a favorable unjust effect and an offsetting charge must be determined by the recipients. The evaluation of the unjust effect and its corresponding compensation or charge should be made by the person affected. This precludes an objective and verifiable determination of equivalence. To achieve a rough justice and to avoid abuse, the recipients of an unjust effect must not have either too much or too little power relative to other groups involved in initiating the set of policies. They must be forced to bargain hard for the equivalent-offset policy, but they must not be pressed too far. In our system we rely mainly on our courts to protect recipients
of unjust effects who lack power and to check those who have undue power. 4

4 Since the evaluation of unjust effects is necessarily a partially subjective process on the part of the recipients, the courts cannot make substantive findings. They must rely on maintaining appropriate procedures and conditions from which one can infer the achievement of a rough justice.

Consider the significance of compensation and charges for the evaluation and decision to initiate a policy. A charge on people subject to the general effects of a policy to provide the compensation of an unjust and unfavorable particular effect would reduce the likelihood of a favorable evaluation of the set of policies. In fact, before the compensation is large enough to offset the unfavorable particular effect, the necessary charge might have increased to a point at which it would make the entire set of policies undesirable. On the other hand, a charge for a favorable particular effect might provide enough compensation to people subject to general effects to make them favor a set of policies which they would otherwise have opposed.

In our society both compensation and charges will often take the form of money. However, this is not necessarily the case. For example, in the view of some persons, farmers bear an unjust cost of highly unstable agricultural prices but are compensated by the benefits of extensive governmental research in agriculture. At least in the short run this requires a charge against taxpayers.
Historically societies often have given special status to individuals who undertook particularly dangerous tasks which the society wanted performed. Such special status was often at the cost of reduced prestige for others performing everyday functions.

It is useful here to summarize and conclude the discussion of general and particular effects. A corollary of accepting each individual as the ultimate value in our culture is that justice requires the effects of policies to be available to or bear upon all affected persons in an identical fashion. This is precisely what general effects do. Thus achievement of justice requires that all of the effects of a set of policies either be general effects or their equivalent. A just particular effect presents no problem in this regard as it turns out to be part of a general effect when all relevant policies are surveyed. An unjust particular effect must be either eliminated, generalized, or offset by an equivalent. If unjust particular effects are either eliminated or made general, all effects of the set of policies will be general in the usual objective sense of identical and justice will be achieved. If unjust particular effects are offset by equivalent policies having opposite effects, the unjust effects together with the effects of their corresponding offset policies will be the subjective equivalents of general effects and justice will be achieved.

The Problem of Equal Net Benefit

The stipulation that all the effects of a set of policies
must be general or the equivalent of general does not solve all problems of justice. A fundamental and basic problem arises when all are subject to the same, objective general effects, but when certain persons evaluate the set of policies favorably and others unfavorably. This will occur when one group places importance on the favorable effects and another group places emphasis on the unfavorable effects. The solution to this problem has been described previously. Additional policies must be added to the set. These must have general effects which will be judged favorably enough by those who opposed the original set of policies to cause them to change their evaluation. Essentially what must be done is to develop a set of policies which are judged favorably by all concerned. Each particular policy in the set would be viewed as beneficial to some and distasteful to others. But taken as a set, the policies must provide a net benefit to each group.

The question of justice arises in connection with the distribution of the net benefits. Justice would be achieved when the net benefits received by the members of each group are roughly equal. Since the net benefit is the result of evaluation by each individual and is partly a subjective matter, it cannot be measured objectively and cannot be compared between individuals. There is no way to determine that net benefits are in fact equal. Possibly the best approximation would occur when each person judges that his net benefit is neither relatively large nor relatively small. That is,
it is not as large as would result from eliminating the less favorable policies in the set nor as small as would result from eliminating the more favorable policies. This is reminiscent of Aristotle's practical ethics based on a mean between good and bad.

A set of policies cannot be judged according to whether it provides equal net benefits as this cannot be ascertained objectively. Instead, attention must be concentrated on establishing and maintaining appropriate conditions. To the extent that a set of policies is developed and established in a democratic and not authoritarian manner, it will arise out of a process of discussion, pressure, and bargaining. A very crude and rough approximation to equal net benefits may arise from a situation in which participants have roughly equal bargaining strength. Complete equality of strength is not necessary, but each group should have the power to impose policies favorable to itself on other participating groups. This has an interesting implication. Ideally, each group should have this power regardless of the size of its membership. Thus groups with a smaller number of members should have greater power per member. There are various elements in our culture which work this way. For example, there are ideas relating to fair play and sentiments in favor of the underdog. Our judicial system is particularly important in this connection as it tends to protect the rights of individuals and small groups in many ways against large groups. For example, it will set aside contracts which were agreed to under
Equal power for small groups has an interesting implication. Although it cannot be proved or disproved, it is conceivable that the total benefits to all persons from a set of policies would be significantly reduced by providing a moderate net benefit for individuals in a small group at a cost to the net benefit of each member of a very large group. Thus, the individualism of this study does not assure the greatest good for the greatest number.

Problems of Justice Caused by Inside, Between, and Outside Effects

So far we have ignored important problems which may be raised by differences between the consequences for persons inside and the consequences for persons outside initiating groups. In effect, we have been assuming that the effects of a set of policies were the same whether the recipient was inside or outside an initiating group. If we address ourselves directly to the problems which arise within an initiating group, we find that we are faced with precisely the questions which have already been discussed. Objective justice within a group requires a classification of effects into general and particular, with provision for eliminating or generalizing the particular effects. Questions of subjective justice require that unjust particular effects which cannot be eliminated or generalized should be offset. Subjective justice also requires that sets of policies applicable to the group should be devised in such a way as to give roughly equal net benefits to sub-groups.

The distinction between effects on persons inside and outside initiating groups does introduce a new problem in the fact that...
inside and outside effects may differ. In the case of important leverage policies the outside effects may be of great importance whereas the inside effects may be almost insignificant. Adverse inside effects on persons administering important leverage policies may be viewed as particular effects with compensation involving no more than the payment of an adequate salary. At the other extreme some policies of large secondary groups will have all of their important effects within the group with only incidental and isolated effects on persons outside the group. All the same, an isolated effect may be important to the recipient. For example, the noise and confusion resulting from the operation of a large private club might constitute a serious nuisance to an adjacent neighbor. This neighbor could seek a remedy in court illustrating the fact that an important function of our courts is to handle outside effects which are adverse, unjust, and particular.

An important problem of objective justice arises when important inside effects are different from important outside effects. For example, a union strike policy will have effects on the union membership which are radically different from the effects on the general public. Under these circumstances all effects are particular and we are faced on the objective level with the difficult and often intractable problem of either extending and generalizing the effects or eliminating them. Neither may be possible and we must turn to the subjective level and the use of special policies to offset particular effects by compensations and charges. Adverse
and unjust outside effects would require that the public be in some way compensated and the union in some fashion charged. Unjust and adverse inside effects would require that the union be compensated and the public charged. Complications in this case may simply defy solution. Policies actually initiated in these circumstances may leave adverse and unjust particular effects uncompensated. In that event parties subject to serious injury may be able to go to court and successfully secure damages or other remedies.

In the case of between-group effects, we find that some of the questions are the familiar ones discussed above and others are new. From the viewpoint of the individuals within each group, the effects generated by the opposite group are comparable in every way to any inside-group effects. The points discussed above apply. The problem of differences between inside and outside effects arises here also. Contracts negotiated between groups often affect bystanders. If there are many bystanders, they may seek a remedy in legislation; and if they are small in number, the remedy may be more likely to come from the courts. If the groups negotiating the contract are responsible, they themselves may eliminate or even generalize outside effects which are particular and unjust.

In regard to between-group policies there is the problem of justice in securing roughly equal net benefits to the individuals in each group. This is a special case of the problem of equal net benefit discussed above and that discussion applies here. Particularly in connection with primary groups, economists have considered
in the most minute detail the net benefits that accrue to participants in exchanges (between-group policies) under varying degrees of competition. Many recent policies of our federal government have been designed primarily to achieve justice by helping to establish a rough equality of bargaining strength between important secondary groups. The Wagner Act guaranteeing the right of collective bargaining was viewed as a "justice" policy to provide bargaining strength on the part of workers commensurate with that of corporations. Many persons viewed the Taft-Hartley Act primarily as a means to redress the balance of strength which had swung "too far" in labor's direction. The Robinson-Patman Act was designed to enhance justice by curbing practices by which powerful corporations acting either as buyers or sellers could coerce the businesses with which they had transactions. A recurring and unsolved anti-trust problem is bringing some balance in the power of individual consumers versus that of large corporations.

Throughout the discussion of this chapter we have limited the question of justice to persons affected by the set of policies in question. In connection with the justice or injustice of a particular effect, a survey of all policies having the effect was suggested. However, in no case have we raised the question whether there are persons beyond the scope of the policy who are denied its benefits unjustly. This is the subject of the next chapter.
This chapter continues the consideration of justice. It has been argued that for the persons affected by a set of policies, justice requires two conditions. First, all effects must bear in an identical or equivalent fashion upon all of the persons affected by a set of policies. In substance, this amounts to eliminating unjust particular effects. Second, there should be rough equality in the net benefits of the set of policies to each person affected. Nowhere has the stipulation been made that general effects must be available to or bear upon all persons in the society. In fact, in our society, few policies do extend to all persons.

Justice and Freedom

Should justice require that everyone in our society be subject to the same effects of policies in the same way? Should all beneficial policies bear upon everyone? Our culture gives an affirmative answer for certain important matters. Basic rights and immunities are supposed to extend to all persons. An example is the constitutional guarantee of proper procedures under due process of law. However, most consequences are not universal.
If we required that all policies as a matter of justice affected each and every person in the same way, policies would have to be initiated by society-wide bodies such as the national government, huge corporations, or organizations operating in an identical fashion with contiguous jurisdictions blanketing the whole of society. The society would be completely integrated and, in a sense, policies would be total policies. Although these policies would be democratically controlled, there would be a limited and partial resemblance to totalitarianism. The Corporate State in Italy and the Fascist State in Germany emphasized policies of a society-wide nature. To the extent that a society is able to have total policies with general effects only, it can make claims regarding the achievement of objective justice which are difficult to match in a diverse society such as ours.¹

¹To the extent that total policies were achieved, the importance of distinctions among inside, between, and outside effects would be minimized. These distinctions, necessary for the analysis of a diverse society, add considerably to the complexity of the problems of justice.

Actually in a heterogeneous society such as ours the requirement that in the interest of justice all policies apply to the total society would be quite restrictive. Given the social history of the American people, it seems quite clear that the gratification of many need-dispositions would require policies or courses of action peculiar to one or another of the distinctive groups in which the individual plays a role. Our society provides a very wide scope
for action. Some people pursue certain types of activities and others quite different types. It would be simply impossible for a society of total policies to duplicate these opportunities. By definition such a society has a high degree of uniformity.

Our society has advantages in terms of choice and freedom. But where does it leave us in terms of the meaning of justice? Obviously, our society's answer to this question does not have the simplicity and elegance of total policies. Historically and down to the present the answer in our type of culture runs in terms of opportunity. Spelled out it means the following: there are probably innumerable policies with effects which would be favorable on balance which each of us is missing. Others are receiving these benefits but they, in turn, are missing some of the benefits which accrue to us. There are presumably more favorable policies and effects than time and energy allow us to enjoy. Complete equality of opportunity would exist if each of us could secure for himself within the limitation of time the beneficial policies and effects which he chooses. All favorable effects are not and cannot be experienced by all of us but should be available to us. In the terms used in this study, the general effects of each and every policy of our society or what we individually judge to be their equivalent should be available to each of us on the same terms.

This is the way that freedom, diversity, and justice are reconciled in principle in our society. This elucidation of the meaning of justice is basic in our culture and has been for centuries.
When Thomas Jefferson, probably our most articulate early proponent of these ideas, wrote the Declaration of Independence with its emphasis on freedom and equality, he understood the latter term to mean equality of opportunity. Opportunity as a value is a basic ingredient in our present-day culture and is a necessary support for its basic value.

Achievement of Opportunity

The meaning of opportunity as a value in our culture is clear, but its realization is beset with difficulties. If our society was composed of small primary groups having roughly equal power and material means, the problem would be much simpler. It is not surprising that economists who build their models on these assumptions often lay great stress on equality of opportunity.

In an open society of primary groups one could not choose the family one was born into, but otherwise it might be relatively easy to set up or join primary groups and grasp the opportunities which they afforded. In contrast, many opportunities today are provided by secondary groups and are contingent on membership. As these groups are often exclusive in one fashion or another, this raises difficulties.

There is the further problem that beneficial effects may
be reserved for certain members only. This is really a problem of justice as discussed in the last chapter. It is an instance of a favorable and unjust particular effect which is not generalized.

In addition, complete achievement of opportunity is impossible in any society. Human beings differ physically. They have different personal histories. Not only will different individuals be subject to different sub-cultures, but they will share different widespread social habits. To summarize, people are often unable to secure opportunities for physical or cultural reasons or because of their unique personal history which includes certain experiences and excludes others.

Despite these considerations, much can be done to achieve opportunity. In the last chapter we referred to "justice" policies which were designed to eliminate, generalize, or offset unjust particular effects on the one hand or to strike a balance in bargaining power among groups on the other. Closely related are "equal opportunity" policies. These may relate to the negative aspect of opportunity, the elimination of restrictions and discriminations by legal action or by response policies designed to change widespread social habits. These open the way for persons to join and participate in groups providing opportunities. Others are positive. They provide the means which allow people to act. Education in all its aspects is the basic positive policy to secure equal opportunity. Important among the many other positive policies are those providing the material means necessary for opportunity. Material means
will be discussed in another connection later in this chapter.

**Justice and Opportunity Take Priority in Evaluation**

Both justice and equal opportunity policies are different from others in regard to their evaluation. To the extent that our society is consistent in maintaining its basic value, policies necessary to the maintenance of opportunity or justice must be judged favorably regardless of any adverse consequences.\(^5\) For example, the argument that a particular tax should not be adopted because it has adverse effects on the material well-being of people generally is not acceptable if the proceeds of the tax are absolutely essential to provide equal opportunity for certain individuals. If justice and equal opportunity policies do not take priority over others, people generally will be receiving a benefit at a net cost to certain individuals. As our culture accepts each individual as the governing and ultimate value, it is morally wrong to accept this if it can be avoided. Logically, the only exception would be a situation in which the life and integrity of every single person in the society depended on unjust policies. The real and immediate threat of complete internal chaos or external aggression might constitute such a situation.
To recapitulate, opportunity as an aspect of justice means that each individual can if he desires secure the effects or consequences of any policy or other effects which are their equivalent in his own judgment. How does American society in the middle of the Twentieth Century measure up to this standard? An authoritative answer to this question is beyond the scope of this study; however, it is readily apparent that American society falls far short. On the negative side there are gross discriminations and restrictions based on race, age, sex, and religion. On the positive side there are many examples of failure to provide even minimum amounts of education or material means necessary for meaningful opportunity. This is a basic moral problem facing our society. Likewise, it is an important aspect of the general problem of economy of means.

**Rules of Justice**

Before leaving this subject, a qualification to the preceding arguments which many persons would cite will be stated and criticized. In our culture we have what might be called objective rules of justice under which it can be determined whether non-identical effects of policies are equivalent. What is the appropriate role of rules of justice? Do they provide an objective means of determining the equivalence of effects without the necessity for recourse to the judgment of the persons affected? Does the use of these

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6 For example, can the appropriateness of an equivalent-offset policy for an unjust and particular effect be determined by a rule of justice without evaluation by the recipients of the effect?
rules allow one to conclude that opportunity in American society is more substantial and widespread than was suggested above? Was the moral problem of justice and opportunity exaggerated?

Prior to answering these questions, several examples of rules of justice as they are applied to non-identical effects on the material means or real incomes of individuals will be considered. First, since wealth constitutes the material means by which many ends are pursued, would not the great differences in wealth in society result in gross inequalities of opportunity? Does not the wealthy man have means to undertake policies and receive effects which are not available to the poor man? The rule which seems to prevail in our culture is that differences in wealth result in significant differences in opportunity only up to a minimum point. Beyond that point the individual can achieve, if not precisely the same, at least roughly the same policies and effects regardless of income. Obviously this concept is only partially true, but it does constitute one of our rationalizations of inequalities of wealth in terms of justice. Furthermore, we apply the concept in many connections. It is often advanced as the justification for personal income tax exemptions, and aid to the aged, the blind, and dependent children. Free public education, public parks, and various public services and benefits are often justified as necessary for this minimum.

Second, the receipt of more favorable effects by one person than another is justified by our culture if the first person has greater merit or is making a larger contribution. Here, as in other
rules of justice, the differing circumstances of individuals justify viewing the corresponding differential treatment as the same treatment in substance. Thus, to give a large financial reward to a person of great merit is the same as to give a small reward to a person of small merit. A policy which bestows a beneficial effect on individuals commensurate with their contribution is viewed as having substantially the same effect on each individual. As long as each gets what's coming to him, his treatment is the same as others.

To be workable, this concept requires that contribution or merit be measured. In connection with the classic problem of distribution of income this requires that the services of the individual or his property must be evaluated. Often in the past and in some instances today, this evaluation would be worked out by between-group bargaining of primary groups with an evaluation by each. This was simple and direct and to the extent that numerous alternative groups were available to the bargainers it would be quite realistic. With the growth of secondary groups this simple, market type of evaluation of contribution is often not available. Determination of contribution is subject to all the considerations discussed in Chapters Five and Six and is really just a special case of the general problem of the evaluation and decision regarding an action or policy. Thus it seems that there is no touchstone to give simple
and sure measurements of contribution. 7

7If justice takes priority over other considerations as argued earlier in this discussion, one is on shaky ground to contend that rewards should be commensurate with contribution in order to achieve economic incentives. Unless we have an overwhelming need for incentives as we might in war time, the matter should be settled on the issue of justice alone or the development of different incentives for individuals in which social justice plays a large part.

To turn to a third rule, is it just to take in income taxes a large percentage of a large income and a small percentage of a small income. Our culture stipulates that a person with a large income is in different circumstances from a person with a small income and that in substance a relative high tax rate on the former and a relatively low rate on the latter come to the same thing. Taking account of circumstances, the tax policy bears in roughly the same way on each person and is therefore just even though treatment is not identical.

The rules of justice suggested by the three examples above are roughly compatible. Reward according to contribution provides a relatively large income to certain people. But according to one of the rules this need not give these persons opportunities which are in substance superior to others since both are above a minimum level. The seeming conflict between the rule on which the progressive income tax is based and the rule of reward according to contribution is reconciled as follows: the latter rule requires reward in some way commensurate with but not necessarily equal to contribution. A person with a higher income before tax also has a higher
income after tax than others. Even though the income differential is reduced by the tax, the rule of reward according to contribution is preserved.

What is the appropriate role of rules of justice? Obviously they provide a rather simple and objective means of solving complex problems of justice. However, like any other values in our culture they are eligible as objects of evaluation. Their moral force rests upon this evaluation. Specifically, a group of related rules of justice must be taken as a complex of offset policies equivalent to and the opposite of various unjust particular effects. For example, the complex of social policies determining the incomes of individuals in society have unjust particular effects on all income recipients. Recipients of very large incomes have an especially favorable

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\[8^{\text{In contrast, a general effect is identical for all recipients. Thus, in the event that all incomes were equal (identical), the policies' effect in this regard would be general and just.}}\]

unjust and particular effect; recipients of large incomes have a favorable effect; and recipients of unusually small incomes have an especially unfavorable and unjust particular effect. Taken together the three rules of justice described above will prescribe a different offset corresponding to each income level. Very low incomes will be offset by low taxes and free government benefits. High and favorable incomes may be acquired but as an offset the differential over low incomes will be reduced by progressive income taxes. People at each income level must judge whether the rules of justice provide
an equivalent offset for their income situation. Either the rules

9Hard bargaining might help provide realistic judgments
and results.

taken together must be approved by almost all persons making an
evaluation or they should be revised. As noted above, justice must
be given priority. If approved, the rules can be used as objective
indicators of equivalence of non-identical effects without recourse
to the judgment of the persons affected. In fact, the persons af­
fected will have already given their judgment when they approved
the set of rules.

This interpretation of rules of justice denies that they
have an objective basis. To be acceptable they must be based on
subjective evaluations as indicated in the preceding paragraph. 10

10After the fact these evaluative decisions are objective
and can be used as rules.

Many would contend that the differing circumstances of persons
may require differential treatment for them regardless of their
judgments and evaluations. This cannot be conceded. It is con­
trary in a fundamental sense to the ultimate value in our culture.
However, if all (in practice, almost all) responsible persons are
willing to accept differential treatment without an equivalent
offset, such treatment is acceptable although hardly just.

Rules of justice shorn of their traditional authority might
not always fare well when evaluated. In fact there is a real need
to re-evaluate them. As they stand they justify as equivalents many gross discrepancies in opportunity and give the illusion of greatly reducing the moral problem of justice referred to earlier in this chapter. A genuine re-evaluation of rules of justice would almost certainly reveal and confirm the presence of serious moral issues of justice and opportunity in American society today.

This concludes the consideration of problems of justice and opportunity. The treatment was highly selective and concentrated on basic issues which must be faced in an analysis of economy of means and social policy evaluation and decision. With this chapter the positive statement of the economic analysis of social policy evaluation is concluded. Next is a consideration of the further implications of this analysis for economics.
Economic thought has very often occurred as a response to social problems. In view of the teleological bent of economists, one might argue that most economics has been and is in some sense welfare economics. One expert in this area makes the following observation:

Welfare economics is that part of the general body of economic theory which is concerned primarily with policy. Some people would argue that all economics is or should be concerned with policy. . . . In the days of the classical economists, the whole body of economics was "political economy" centered around the welfare problem.\(^1\)


Present-day economists are concerned with a range of policy questions, although the economic theory subscribed to by most does not provide an adequate basis for this interest.

The analysis of this study is a type of welfare economics. It is concerned with questions of social policy and human welfare. To be sure, this treatment is quite at odds with modern, orthodox welfare economics. In fact, it is much closer to neo-classical and classical welfare analysis. It is also much closer to the type of
study which economists actually conduct when they are analyzing broad public issues. To view the analysis of this study as a type of welfare economics is interesting in the light of the following comment written by Kenneth Boulding:

Thus we seem to be on the verge of an expansion of welfare economics into something like a social science of ethics and politics; what was intended to be a mere porch to ethics is either the whole house or nothing at all! In so laying down its life welfare economics may be able to contribute some of its insights and analytical methods to a much broader evaluative analysis of the whole social process. 


The remainder of this study will be given over to implications for economic theory of the broad welfare approach described herein. It will not cover the whole range of possible problems regarding theory for two reasons. First, some might argue that criteria other than usefulness in policy analysis should be applied to theory. Second, even if one accepts usefulness in policy matters as the chief criterion for judging economic theory, one might emphasize factors slighted in this study and skim over ideas developed here. This might lead to another set of implications.

A further qualification is in order. The basic implications of this study have been expressed in other terms in connection with different conceptual frameworks. The basic criticisms of economic theory expressed here have been made in quite a different way
by institutional economists.

The basic difference between this analysis and traditional economics concerns the treatment of values. This difference has two facets which are both expressions of the same underlying idea. These will serve to organize the discussion of the remaining chapters. They are as follows: first, traditional economics takes increases in material well-being as the governing or ultimate value for purposes of analysis. Economic analysis is concerned with commodities or goods and services; economic welfare is measured in material terms including services; and economic issues are settled by an appeal to material well-being. The difficulty with traditional

[262x680]3Kenneth Boulding made this general point as follows: "Economics . . . is not primarily interested in men, but in commodities—in those things, material or immaterial, which are produced, distributed, exchanged, and consumed . . ." Ibid., p. 3

analysis is not necessarily its materialistic bias. It is rather the difficulties and confusions that arise when a subordinate end, material well-being, is taken as the ultimate end for purposes of analysis.

The other facet of the basic difference between traditional economics and this analysis is the position of positive science. Most present-day economists are logical positivists. Many of them believe that economists cannot go beyond material well-being without going beyond the boundaries of objective science into an unfirm and shifting terrain of emotions and subjective value judgments. By
staying within the confines of material well-being and by assuming that within them mankind is quite rational and outside is quite irrational, economists are able to give objective and scientific appraisals of certain policies from the viewpoint of "economic" welfare. The analysis of this study will suggest that by doing this, economists are at one and the same time going too far and not far enough.

Material Well-Being as the Governing Value: Its Basic Assumptions

The use of the phrases "governing value," "governing end," and "value premise" requires a comment. An effect or consequence explained by a theory can be viewed as solely a matter of scientific fact and as in no way an end subject to valuation. This is precisely the view taken by many traditional economists regarding the effects on material well-being delineated by their theories. At the same time other economists take an effect or consequence as a norm or standard and develop a normative theory as a yardstick to measure the actual performance of the economic system. The end is an axiomatic value. Henry Davenport is an example of the first type of economist and Frank Knight of the latter. In the first

4The authority for this statement was Dr. Ralph Dewey of Ohio State University in his seminar in neo-classical economics.

view the effect as a value is implicit. In the latter, it is explicit. In both, the desirability of enhancing material well-being
is the value premise.

The meaning of the phrase material well-being as the governing value of economics can be clarified by reference to Lionel Robbins' classic treatise on the scope and method of economics. 5

Robbins stated, "The definition of Economics which would probably command most adherence, at any rate in Anglo-Saxon countries, is that which relates it to the study of the causes of material welfare." 6 Robbins cites the definitions of Cannan, Marshall, Pareto, and J. B. Clark as authorities for this statement. He criticized this definition by observing that economics deals with immaterial services as well as material things. This criticism hardly seems justified since traditional economists have usually used the word material to refer to services as well as goods. Following common practice this latter and broader meaning is intended as the term is used here.

Robbins extended his criticism of a materialistic definition of the scope of economics by arguing that economics relates to given ends regardless of their nature. He referred to this as a scarcity approach to economics. Formally, Robbins' definition of economics is similar to that of this study. He stated that a


6 Ibid., p. 4.
wide variety of ends are relevant to economics. However, a care­
ful scrutiny of Robbins' essay reveals that he actually limited
his concern to goods and services which are valued in money. Thus
he, like other traditional economists, accepted material well-being
(including immaterial services) as the governing value of his system.

Material well-being or real income is usually measured
by money flows deflated by an appropriate price index. Conceptually
it is an aggregate of units of goods and services with each weighted
by its respective price or cost. Increases in this aggregate consti­
tute improvements in material well-being. Economics is concerned
with several aspects of this basic measure. First, it is concerned
with increases in the real income per person over time. This is
often referred to as economic progress, economic growth, or economic
development. Second, it is concerned with the stability of the real
income of society. This is divided into stability of the general
price level and its major components and stability of production
and employment at high levels. Third, one person's real income may
differ from that of another. This raises the question of justice
and opportunity in connection with material well-being. Economists
have often stipulated justice or equity in the distribution of real
incomes as an end or goal related to their discipline.

Another end or objective related to real income is freedom
in economic life. This may refer to freedom to choose products or
occupations. It may involve, within limits, the freedom to establish
and operate businesses and to enter into contracts. For example,
one would be free to buy or sell financial instruments of various sorts. Freedom to choose products and occupations is often combined with the concept of efficiency of the economy in providing products and jobs. These together are referred to as the end or objective of consumer sovereignty.

Certain economists emphasize freedom in all of these aspects as an end which is important in itself. At the same time it is taken as a necessary condition and means to the enhancement of material well-being. For example, a person with a given amount of money income will presumably benefit more if he is free to choose the products which he wants most and if the system adjusts effectively to his choices.

The desirability of one or more of these ends constitutes the values premises of various traditional approaches to economic theory. Each is an important aspect of the enhancement of material well-being.

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The acceptance of material well-being as the governing value for analysis seems to be based on two assumptions which are either implicit or explicit depending on the economist. First,
there is a large group of actions which is distinguished by the fact that its consequences pertain chiefly to one or another of the various aspects of real income. All of the significant consequences of these actions relate directly or indirectly to the command over goods and services or their components. Second, real income is a generalized means to a wide variety of "higher" ends. These two assumptions taken together depict real income as the bottleneck through which the consequences of a wide variety of actions flow. Various actions have diverse consequences which lead by either a long or a short route up to consequences defined as a change in real income. In turn, these changes in real income influence further actions which fan out in a wide variety of consequences.

These ideas are well illustrated by Alfred Marshall's *Principles of Economics*. He begins this famous book with the statement, "Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of material well-being." ³

³Marshall, p. 1

In the second sentence following he establishes the broad scope and importance of actions which pertain to real income with the following statement: "For man's character has been moulded by his everyday work, and the material resources which he thereby procures,
more than by any other influence unless it be that of his religious
ideals.

Early in the volume he establishes the idea that

economic actions are means to various ends.

Thus . . . it is true that "money" or "general
purchasing power" or "command over material wealth"
is the center around which economic science clusters.
. . . Money is a means toward ends, and if the ends
are noble, desire for the means is not ignoble. . . .
In short, money is general purchasing power, and is
sought as a means to all kinds of ends, high as well
as low, spiritual as well as material.

Both the first and the second basic assumptions are combined in
the following short quotation from the first paragraph of Marshall's
discussion of the substance of economics: "... the steadiest
motive to ordinary business work is the desire for the pay which is
the material reward of work. The pay may be on its way to be spent
selfishly or unselfishly, for noble or base ends."\(^\text{11}\)

Traditional economists have commonly made an important
qualification of these basic assumptions. They have insisted that
"non-monetary" considerations can be adjusted for. When faced
with a problem of other ends which could not be ignored, economists
have commonly resorted to this expedient. Under certain circumstances
they will observe that prices and quantities of commodities and thus
the material well-being of the persons involved are different from
what they would otherwise be because they have been adjusted for non-
monetary considerations. College professors' salaries are lower
than otherwise because of the psychic income they are alleged to
receive. Marshall described this qualification as follows:

It has indeed always been the practice of economists
to take careful account of all the advantages which
attract people generally toward an occupation,
whether in money form or not . . . their attractive
force can be estimated and measured by the money
wages to which they are regarded equivalent.12

12 Ibid., p. 23.

Concentration of attention on goods and services and actions
concerning them has real advantages. Goods and services are usually
subject to convenient units of measurement. For example, many
standard physical measurements are available. They have the further
great advantage that as a commonplace matter they are subject to
valuation by people generally. In fact, some commodities are the
objects of a valuation process by people from all walks of life in
all geographic areas. Furthermore, in our pecuniary type of society,
these valuations are almost all made with the same unit of measure-
ment, money. These institutional facts make analysis related to
commodities quite convenient.
Attack on Validity of Two Basic Assumptions

This convenience is almost too great to resist. Should economists resist it? The answer must be affirmative. The two basic assumptions of traditional economics discussed above are not valid. First, few actions have important effects which are limited to material well-being only. Second, effects of actions on material well-being are often not inferior or prior to other effects. The very actions by which one earns his living may be the source of one's security or insecurity or status or lack of status. Thus, in the immediate pursuit of one's occupation, one can cite non-material consequences, such as pride in craftsmanship, the social status which the job entails, the enhancement of personal skills, the achievement of stable and secure family and community relations, and sharing in the work of the community. Each of these and many other ends can be advanced directly by one's daily work and need not be contingent solely on the receipt of income.

As much of the argument of this chapter rests on the point that relatively few social policies and actions have major consequences restricted to real income only, an indication of other consequences and ends is in order. United States farm policy has consequences for the freedom of farmers which go beyond any traditional definition of economic freedom. Farmers who oppose crop restrictions may be subject to serious penalty if they act according to their convictions. Labor policies may have important consequences for union democracy. The nature of our tariff policy may have
significant effects on the political support which we receive from our allies. Economic growth and development policies may have profoundly disturbing effects on the social stability of backward societies. Each of these is widely accepted and recognized as an "economic" policy; yet in each instance a major consequence for an end or objective other than material well-being is cited.

The scope of economics as defined in this study would include many policies which would be considered at the periphery of traditional economics. There are many important policies dealing with education, health, race, population, defense, and international relations which can and should be analyzed from the viewpoint of the economic use of means. All of these policies would have important consequences for ends other than increases in real income. In some extreme cases there might be no important consequence for real income.

One study of the evaluation of social policy suggests that policies tend to have consequences for one or more of the following basic ends in addition to material well-being: freedom, equality, justice, security, or stability. Furthermore, consequences for

\[13^{th} \text{ Clark and Grimes, pp. 1-2.}\]

these ends are important in various societies at different points in history since they relate to basic human wants or needs which
cut across cultures.\textsuperscript{14}

\textsuperscript{14}Easton, p. 188. Note the reference to Thomas' four wishes.

Consequences of Invalid Assumptions for Theory

The lack of validity of the two basic assumptions necessary to the use of material well-being as the fundamental value premise of economics and thus to logical positivism in accepted economics has important consequences for economic theory. First, negative consequences will be considered. These are criticisms of existing theory divided into those that pertain to micro-economic theory and then those that pertain to macro-economic theory. Second, positive implications involving the desirable attributes of economic theory will be discussed.

Micro-Economic Theory

Allowing for non-monetary considerations will not satisfactorily shore up these two basic assumptions and make them usable. The adjustment for these considerations occurs only in the case of policies which take the form of a payment of money; and there will be many policies subject to economy of means involving little or no money. If other effects are relatively important compared with those on material well-being, it becomes quite difficult and pointless to account for them through adjustments in material well-being. It would hardly be appropriate to judge policies to improve the
education of children or to save the lives of soldiers in combat by their effect on the price of steel. A much more straightforward procedure is to consider each effect, including any on material well-being, in its own right and strike a balance among them. This is the process suggested in Chapters Three and Four.

The practice in traditional microeconomics of either ignoring or, if necessary, adjusting for effects on ends other than material well-being forces economists to adopt an unrealistic view of human nature. Of necessity, their theory of action and personality must be organized primarily in terms of responses to prices and quantities of goods and services. Commodities, prices, and sums of money are the chief objects of motivation relevant to the range of "economic" actions. This results in an unrealistic "economic" man. He is compatible only with a crude hedonism. Yet

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15 For a contrary claim see Marshall, p. 27.

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economics cannot be rid of him or utilize a realistic psychology unless it encompasses all relevant consequences.

Limiting the concern of economics to one end on the same level of importance with several others, leads to difficulties when economic theory is used for normative purposes as a model or standard for measuring the efficiency with which an actual system under stable conditions operates in providing real income. Each of the various versions of traditional micro-economic theory has a number of other premises setting forth the conditions for the
system. A commonly used premise is that resources must be highly mobile. This implicitly assumes not only large adverse effects on various aspects of personal stability but also a quite low evaluation of them. This amounts to assuming that the achievement of a large income is worth more than the serious adverse effects of high mobility on stability and on other implicit ends. Thus, such normative models have the serious shortcoming that they assume and conceal rigid consequences and extreme valuations for important ends.

The perpetual game of hide-and-seek in economics consists in concealing the norm in the concept. It is thus imperative to eradicate not only explicit principles but above all evaluations tacitly implied by the basic concepts.16

These fixed consequences and valuations are often extreme and seldom correspond to the valuations which people would decide for themselves. To summarize this difficulty, a normative system attempts to measure the achievement of one end, but its premises explicitly or implicitly freeze consequences for and evaluations of other important ends. What is needed is not one but many different normative systems so that people can choose the one whose effects on various important ends they judge to be most favorable on balance.

This is a problem of logical positivism in economics. It is not only ineffective ethics but bad science. It is
analogous to an attempt to adjust and move one part of an inter-related machine while holding each of the other movable parts in a fixed position. If one concedes that everyday actions and policies generally have non-material consequences, one cannot use a normative system explicitly measuring only material consequences and at the same time escape this logical and analytical difficulty. Unless and until people generally accept consumer sovereignty as the overriding end in their life, traditional micro-economic theory should be relegated to an important place in the history of economic doctrine.

Macro-Economic Theory

The development of Keynesian or modern macro economics in the latter 1930's and thereafter has an interesting relationship to the two assumptions which, taken together, depict material well-being as a bottleneck through which the consequences of a wide range of actions flow up to higher ends. The thesis to be developed here suggests that there is some truth in the statement that John Maynard Keynes together with the depression-born problem of economic stability revitalized logical positivism in economics and prolonged its life indefinitely. For a time at least, economic stability replaced other aspects of material well-being\(^{17}\) as the

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\(^{17}\) In the period prior to the depression, micro economics, that is neo-classical economics, had emphasized almost exclusively the aspect of material well-being concerned with the efficient allocation of resources in response to consumers' choices. In effect, this was the value premise replaced by economic stability. Of course, both efficient allocation and economic stability are aspects
of material well-being. This amounts to a marked change of emphasis within the same broad tradition.

The Great Depression demonstrated the importance of economic stability and predisposed economists to accept it as their basic value premise.

Frustrated by their inability to answer the pressing questions posed by the depression and realizing that Keynes' *General Theory* provided them with the answers, or at least with some of the answers sought, many economists seem to throw scientific objectivity to the winds in their desire to render themselves useful. The choice between prosperity and depression, between a high and a low national output seems so obvious and so easy to make that few if any economists stopped to ask themselves whether they had made their choice on objective and purely scientific grounds.  

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Scitovsky, pp. 305-306. The implied criticism is unwarranted. Value premises cannot be chosen scientifically, but no social science can function without them.

Economic stability was widely accepted as the basic value premise. Furthermore, it was accepted explicitly.

Since the depression, economic stability has been an end of great value in our society. In fact, it is also an important means to many consequences for higher ends. Economic stability reduces human suffering, is necessary for stable international relations, encourages economic growth, and has other beneficial consequences. Thus, macro-economic theory fits the second basic assumption. It concerns a necessary condition and generalized means for a wide range of further consequences.
Of crucial importance, however, is the way macro-economic theory fits the first assumption that there is a group of actions with consequences that pertain chiefly to the governing value. This has two phases. First, insofar as the actions of individual businessmen and consumers were concerned, Keynes and his followers explicitly retained micro economics with its general premise of maximizing material well-being. However, of major importance is the fact that they concentrated in their theory on a narrow class of individual actions relating to decisions to save, hoard, invest in capital goods, lend, and borrow. These are the actions where pecuniary calculations and motives are probably most highly developed. The major part of these decisions is made by a rather small group of relatively wealthy persons who are typically quite sensitive to material values. The particular selection of individual actions and decisions emphasized in orthodox macro-economic theory make at least a fair approximation to the traditional economic value premise and probably come closer than any alternative selection. In contrast, traditional micro theory had to argue that the economic man was somewhat typical of men and women in various walks of life throughout society.19 Surely macro economics stands in a much

19Wesley C. Mitchell was one of a number of critics of this contention when he observed in "The Rationality of Economic Activity," Journal of Political Economy, XVIII (March, 1910), 200: ". . . The assumption of rationality fits the activities of consumption nowhere outside of economic treatises."
Second and of equal importance, Keynes and his legion of followers have emphasized fiscal and monetary policies as the chief instruments for attaining the basic value of macro theory, economic stability. Much of their theory is concerned with this narrow range of policy sometimes broadened slightly to include direct controls.

The major point here regarding monetary and fiscal policies is that they tend to have major consequences for only one broad end. Monetary policy is an extremely refined and narrow type of leverage policy. Central bank control of the general money supply seems to have its major consequences limited primarily to economic stability, particularly the price level aspect. The taxes and

The prospective wider use of direct, selective monetary controls will tend to alter this situation as these policies may have relatively more important consequences involving family and business activities. For example, they may have a more pronounced effect on the adjustments of individual businesses to changes in technology. These effects may become less the result of negotiations between businesses and bankers and more the outside effects of leverage policies by the central bank.

This statement is also more subject to qualification when general monetary controls contribute to extreme changes in interest rates.

government expenditures which are the tools of fiscal policies have important consequences of all descriptions. However, economists have usually attempted to frame fiscal policies for economic stability with an eye solely to their impact on income flows while attempting to avoid changes in the tax structure or the purposes of government spending. For example, they have often concentrated on changes
in rates of taxation or spending. Thus, fiscal policy in macroeconomic theory tends to have important consequences for economic stability only.

In the whole range of social policies it is difficult to find any other major policies which have their important consequences concentrated on one broad end to the same extent as monetary and fiscal policies. In contrast to these policies consider the broad scope of the consequences noted earlier in this chapter of tariff, labor union, farm price support, and economic development policies. None of these traditional "economic" policies which are usually analyzed with extensive use of micro-economic theory conform to the first necessary assumption of traditional economics that the important consequences of policies be limited to the basic value adopted. Where micro economics fails, macro economics succeeds. Thus, it is hardly an exaggeration to say that Keynes did more to preserve and maintain the great classical tradition in its philosophic aspects than his illustrious predecessor at Cambridge, Alfred Marshall.\(^{21}\) One may guess that the critics in economics

\(^{21}\)The force of this contention is highlighted by a review of Marshall's Principals noting the lengths to which he went to support Ricardo.

would have won out had it not been for the depression and Keynes.

In the last dozen years macro economics has become increasingly concerned with trends and economic growth. One group of economists has been primarily concerned with making variations of
the Keynesian model dynamic. This approach has all the attributes


of macro-economic theory discussed above. In addition, it explicitly allows for increases in output of goods and services which will follow from net investment in capital goods. Thus, its value premise is economic stability but at ever higher levels. The characterizations and conclusions regarding macro economics drawn above continue to apply.

In contrast, there has been an increasing interest among other economists in studies of backward areas and in economic development. These tend to be more descriptive and often draw heavily on sociology and history. Probably they should be excluded from orthodox macro economics. In any event these studies will run up against major consequences of policies and actions for several diverse ends other than a stable economy with rising output. To the extent that economists pursue these studies they will have the same difficulty with logical positivism that they have had in micro economics.

What is the value of macro-economic theory from the viewpoint of an economic analysis of social policy evaluation? Much of it is quite useful. This applies to those parts that stay clear of the technical paraphernalia of micro-economic theory and avoid this particular "integration." Unfortunately, some of
the theory that meets this specification is unsatisfactory because it takes necessarily rough and rather simple ideas and buries them under a burden of complex and difficult theory in a vain attempt to be precise and scientific.\textsuperscript{23} Possibly the greatest danger is

\textsuperscript{23}For a good example, see the study by Hicks cited above.

that economists will be so concerned with macro-economic theory that they will let other important tasks go by default. This will be discussed in the next chapter.

\textbf{Desirable Attributes of Economic Theory}

Economic theory should incorporate all of the major consequences of social policies. In evaluating a set of policies the consequences considered should be all those that are relevant.\textsuperscript{24}

\textsuperscript{24}Part of the evaluative process is to determine which consequences are relevant. In this way the list is closed and the effects to be considered are determined for the evaluation at hand.

Economists should not limit their effectiveness by concern for traditional lines of demarcation of the discipline.

This point has a dynamic aspect. Not only should the list of consequences be open to any recognized consequences but new and different consequences should be considered as they arise. Economy of means should not relate solely to given and existing means. New objects and new habits or need-dispositions to enhance gratification should be considered.
The consideration of ends other than real income will require economists to use knowledge from other social sciences. Questions of opportunity and justice may require information from law and political science. The substantive aspects of the effects are likely to draw primarily on economics, sociology, and social psychology. As noted above an open list of effects will greatly facilitate the use of psychology.

Determining the various consequences of social policies will be easier if each link in theoretical sequences corresponds as closely as possible to habitual actions or responses of the persons involved. For example, a reduction in certain farmers' incomes resulting from reduced government price supports might result in farmers spending less for farm equipment with consequent unemployment in the farm equipment industry. For the sake of brevity and without necessarily sacrificing accuracy, one might use the elliptical link that reduced price supports resulted in unemployment in this industry omitting the intermediate links of reduced incomes and reduced spending. However, these links would probably involve reduced spending for purposes other than the purchases of farm equipment. Reduced price supports might cause farmers to spend less for medical care. By omitting these responses one would ignore other consequences of possible importance to farmers and their families which would be relevant to an evaluation of the original reduction of farm price supports.
Not only should each link in a theoretical chain corresponding to an important habitual response be made explicit, but various different responses affecting economic aggregates should be explicit. Aggregates like total consumer spending should be explainable in terms of various homogeneous sub-classes of actions so that important consequences will be apparent.

Another implication is that theory and policy must be much more closely related than they have often been in the past. This can be done in either of two ways: first, economic theory can be developed primarily in conjunction with the analysis of specific policies. As new policies come under consideration they can be inspected for similarities to policies analyzed in the past so that existing theory could be utilized and developed. This would be analogous to the use of legal theory as the common law is applied to new cases and somewhat different situations.

A second approach is to concentrate on theory without direct reference to particular policy issues by an instrumental analysis meeting the following specifications: first, the analysis should be instrumental to one or several explicitly assumed ends. It is highly desirable that the analysis be divided up so that, where possible, only one end is considered in each case. Second, it is important that the analysis minimize assumptions regarding other ends. To the extent such assumptions are necessary they should be made explicit. Furthermore, the economist should construct a taxonomy or set of theories with each theory corresponding to
different assumptions regarding relevant ends. For example, a set of theories might be constructed with each explaining the effects on the stability of prices of a different assumption regarding our national defense needs. This would facilitate the development and evaluation of a policy which had important consequences for these two ends. Third, the units in a theoretical structure should correspond to the actual responses and habits of persons. This tends to help make consequences explicit as explained above and it also avoids the necessity for unrealistic psychological assumptions. These three specifications would assure that the theories would be useful for the economic analysis of social policies and that they would not have the shortcomings and pitfalls of normative systems as described earlier in this chapter.

One advantage in the second approach would be that independent and creative persons would probably undertake the exploration of seemingly improbable and unlikely or extreme consequences thus suggesting policies markedly different from any actual or prospective policies. This "theoretical" endeavor might point the way to highly desirable policy changes. It might provide theories which would be relevant in case of drastic social changes and tend to overcome a potential shortcoming of the pragmatic and instrumental approach which tends to gear theory to present policies or only slight modifications thereof.

As it was argued above that present micro-economic theory is quite unsatisfactory, a suggestion of the general implications
for this area is in order. A start toward an expanded list of consequences has been made within micro economics itself by J. M. Clark with the concept of workable competition which he introduced in 1940. This approach breaks down the general objective of

 profit maximization into a number of more immediate and practical objectives which businesses are supposedly forced to achieve by workable competition. As this approach is developed almost entirely within the context of quantities and prices of goods and services with enhanced real income as the value premise, it does not remedy the basic weakness of micro theory.

What are the outlines of an acceptable theory of the business firm? The basic point is that a business firm functions by maintaining a satisfactory set of policies. In Chapter Six it was pointed out that certain policies will be initiated by a business unilaterally and many will be negotiated with other groups. In both instances the business is an initiating group. Its functioning depends on all of these policies taken together constituting a satisfactory set to the business itself and may depend on the assent of associated initiating groups and persons receiving any outside effects.

In this broad context the "inputs" of the firm are the adverse policies it must include in its set and its "costs" are the
adverse consequences of such policies. For example, the firm hires workers with the consequence that it must pay them wages. The "output" of the firm is the favorable policies it initiates and its "revenues" are the favorable consequences of these policies. One output policy would be the provision of services to households with the consequence being the receipt of money income. Another output policy would be a sharing of community responsibilities with the revenue being the moral approval of the community. The

26 Note that the Pigovian distinction between private and social costs is paralleled here by a distinction between unfavorable inside and unfavorable outside consequences. Private costs include the former, social costs include both. The distinction between private and social revenues is paralleled by the distinction between favorable inside consequences and favorable outside consequences. Private revenues include the former, social revenues include the latter as well.

"profits" of the firm are the net benefits of the entire set of policies. Presumably net benefits must be forthcoming or the firm will cease to function.

The analogies made in the preceding paragraph illustrate that business firms may be viewed as an important type of group which initiates policies. The theory of the business firm should be an adaptation and application of the general economic analysis of social policy evaluation. Since economics in America is a social science in a democracy, its analysis must not be limited to favorable or unfavorable inside effects (pertaining to the business firm only) but must extend to between and outside effects of the firms'
policies. In fact no problem confronted in the first eight chapters of this study including questions of justice and opportunity can be avoided. Thus one moves back toward the problem discussed in Chapter Six of the moral responsibility of the corporation.

Industry studies would follow this same pattern dealing with identical or similar policies initiated by appropriate aggregations of business firms. Industry membership would not necessarily be defined by products or services but by similarity of policies. Therefore, the term industry, with its historical connation regarding a product, should be used with care.

It is likely that the type of theory of the business firm suggested here would provide a much more useful theoretical and philosophic basis than present theory for the numerous relevant studies being conducted in applied economics, labor relations, and business organization. Likewise, it should encourage a rapid extension of such studies. Certainly these possibilities would bear careful investigation.
CHAPTER X

IMPLICATIONS OF THIS STUDY FOR ECONOMICS

(CONTINUED)

The basic theme of the preceding chapter concerned real income as the criterion or end around which traditional economics has organized its analysis of "economic" action. A wide area of social action was taken to be instrumental primarily to this end. In turn, the end of real income was taken to be a generalized means for the attainment of further or higher ends.

The subject of this chapter is the other side of the same coin. A basic reason for establishing real income as the governing end in traditional economics was the contention that actions pertaining to this end could be analyzed scientifically, but actions pertaining to ends beyond it were outside the scope of positive science, at least in economics. Once consideration went beyond effects on real income, scientific inquiry had probably ceased. This is another aspect of the traditional relationship between "economic" action and the end of real income.

Scope of Economics

This chapter will attempt to delineate a different limit to positive science in economics and contrast it with the scope
of traditional economics. This requires a different relationship between positive science and the process of evaluation. First, the dominant position in modern economics on this subject will be described. Then the position of this study will be summarized and contrasted with the accepted position. Next, implications for measurement in economics will be drawn, and finally the argument will be summarized.

The Accepted Position on the Scope of Economic Science

The position on the nature of economic science accepted by the majority of modern English and American economists was set forth by Lionel Robbins in his The Nature and Significance of Economic Science. In brief, Robbins' position is that economics deals with formal relationship between given means on the one hand and given ends on the other. On one side technical considerations are taken as given and on the other side value considerations are fixed and given. It is this latter consideration which will be of primary interest. Behind the demand functions for goods and services a fixed order of preference regarding ends is assumed. The demand functions are within the province of positive science; the order of preference of ends is not. Robbins takes this to be the dividing line between economics and ethics. He states, "Unfortunately it does not seem logically possible to associate the two studies in any form but mere juxtaposition. Economics deals with ascertainable
facts; ethics with valuations and obligations."¹ Robbins makes

¹Robbins, p. 148.

a definite distinction here between factual judgments and value judgments. This same distinction is accepted in this study.² The

²Economics in this study is value free or "objective" in precisely the sense used by Robbins. See Ibid., p. 90.

significant point is that the line dividing the two is drawn in a different location. For Robbins it is drawn to include effects on real income and ends instrumental thereto and to exclude consequences for other ends. For him this is simple and clear cut as he implicitly accepts the two assumptions criticized in the last chapter. No complex and difficult job of sorting out those consequences which are scientific from those which are not is necessary. Consideration is limited to those actions that have consequences for material well-being. These are almost invariably on a lower level than other consequences. By stopping before the material consequences lead on to higher consequences one stays within the scope of science, economic or otherwise. Probably the majority of present-day econo-

mists would, on this basis, agree that when one moves beyond ques-
tions of the quantities of goods and services and their prices, one is moving into an irrational, subjective, and non-scientific area.

From the viewpoint of this study objective science in general includes knowledge about objects in the situation of individuals,
knowledge on which we can positively agree. In economics this knowledge must be relevant to economizing of means (evaluation) and must be subject to empirical verification. Traditional economics would add the further limitation that these objects must pertain to goods or services or their prices on the one hand, or on the other hand, the relationships between these various scarce resources. In contrast, this study includes any objects which are the effects or consequences of policies or actions and any concepts explaining their occurrence. This necessity to consider all consequences of policies was a basic contention made in the last chapter. In this chapter it will be emphasized that positive science also includes any facts which help individuals judge the importance of consequences. These associated facts are divided into first, the further consequences of effects (related in a fashion external to personalities); second, the concomitants of effects (related internally through need-dispositions); and third, values in the culture. Positive science also includes knowledge about the responsiveness of groups initiating policies to the evaluations of person affected and about questions of justice and opportunity.

This objective knowledge can be made available to individuals who may use it in the evaluation of policies or actions. Evaluation by an individual involves the balancing out of the importance of the various consequences of the policy in question. The evaluation itself is subjective but to varying degrees it is based upon and utilizes objective knowledge which is subject to
verification by positive science. In other terms, the evaluation is a value judgment, but it utilizes factual judgments. Of course, once an evaluative action is completed, it is an objective fact. Thus economic history can discuss value judgments as objective facts although with the present state of knowledge the process of making value judgments cannot be explained completely.\(^3\)

\(^3\)Referring to this situation, one expert observes, "This fact makes 'subjectivism' in the present state of knowledge inescapable and a strict behaviorism impossible." Bonner, p. 233.

The differences between traditional economics and this study in regard to the scope of positive science in economics may be summarized under two headings. First, traditional economics is concerned solely with consequences which relate to the real income of society; whereas this study is concerned with all objective consequences of policies and actions. Second, although evaluative decisions by individuals are excluded from the scope of positive science, economic or otherwise, in both traditional economics and in this study, many scientific facts related to the evaluation procedure which are excluded in traditional economics are included here. Any facts associated with consequences and relevant to their importance are included and not just facts associated with prices and quantities of goods and services. For example, cultural values relevant to consequences should be included within the scope of
positive science in economics.  

4It is often quite difficult to determine whether a particular economist considers these matters outside the scope of economics only or outside the scope of positive science (including other social science disciplines as well as economics).

Measurement in Economics

The criterion used above for determining the scope of positive science was objectivity. Being objective, the knowledge can be described and classified. However, many would also insist that the phenomena must be measurable in some significant sense. This is certainly contended by many orthodox economists. Marshall observed:

But the motive is supplied by a definite amount of money: and it is this definite and exact money measurement of the steadiest motives in business life, which has enabled economics far to outrun every other branch of the study of man.  

5Marshall, p. 15.

Traditional economists have measured two different classes of facts. First, they have measured goods and services and, second, the valuation or importance placed on goods and services. It was to the latter that Marshall was referring above. Physical goods have been measured with standardized units pertaining to number, length, area, volume, weight, and so forth. Services are usually measured with reference to time. Examples are the services for a
specified period of time of a particular property or labor services of a stipulated quality. The valuation or relative importance of a unit of a good or service is objectively and scientifically measurable by its money price. The ratio of the prices of two products indicate the relative importance of the marginal units to the persons actually making purchases.  

Various technical qualifications will be ignored.

In this study an effect or consequence parallels a unit of a good or service and the relative importance of an effect parallels the money price in traditional economics. First, an effect or

Note that both this study and traditional economics are concerned with valuation processes.

consequence as a unit of measurement will be considered.

The essence of measurement is comparison. Inches, feet, and yards are convenient, standardized, and explicit means for comparing distances. A careful description of an effect of a set of policies is an explicit and rather convenient means for comparisons with similar effects of the same class resulting from other sets of policies. However, it is not a standard unit. The same category of effect could differ significantly for two distinct and separate policies. Two tons of coal will be the same regardless of what policy is involved; but an effect on insecurity will depend on the policy or action involved. However, there is no pressing
need for a generalized measure of insecurity. The most one is likely to want in this regard is a comparison of the insecurity caused by several alternative policies and this could be accomplished by a comparison of the descriptions of the policies and the qualitative effect of each on insecurity.

The really important function in connection with measurement of careful descriptions of effects is not the comparison noted above of the same effect of two entirely different sets of policies. Rather it is as a basis for the comparison of two entirely different effects of the same set of policies to determine their relative importance. Measurement of importance (comparisons of gratification or deprivation) are usually made implicitly by an intuitive weighing and balancing of the consequences or effects of a set of policies or actions. This necessarily involves some rough comparison and measurement among the consequences involved. As noted in Chapter Four there might be special circumstances under which the comparison and measurement of effects would be made explicit. In that event one of the effects could be chosen as the basis for comparison. Each of the other effects would be related and compared to it. One could even make this relationship explicit by assigning a weight to each effect which would make it possible to conclude the evaluation by comparison of the weighted favorable and weighted unfavorable effects. 8

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8See Chapter Four for a complete explanation of this process.
Is it likely that most effects of policies can be described in a fashion which will allow either an implicit or explicit process of evaluating effects? It seems highly likely when one considers the extremely rough nature of the process of valuation. Even the unrealistically precise process of evaluating a policy described in Chapter Four would not require more than a careful qualitative description of the relevant effects. No quantification is necessary. Considering the uses to which an effect is put, a careful description "measures" it adequately and warrants including it within the scope of positive economics. This is an important point. Economists and other social scientists should not give way to futility because of the roughness of their measurements. Specifically, economists should not fear to go beyond the relatively precise measurements of consequences for real income. The benefits to the evaluative processes would offset the loss of precision.

The Question of Scientific Valuation

A parallel was drawn above between the unit of a good or service and its valuation by a money price on the one hand and the effect of a policy as a unit of measure and its valuation on the other hand. Both the unit of a good or service and its counterpart, an effect, are objectively ascertainable and within the scope
of positive science. In contrast, a money price is an objective evidence of evaluation by individuals and is within the scope of positive science; whereas the valuation of an effect by individuals is almost always implicit with no objective evidence. Both are ultimately subjective. Psychologically, the valuation process is the same in both instances. One may presume that it is no more accurate in the case of goods and services. The difference is that in the latter case there is objective evidence of a sort regarding the valuation. The economist as scientist can designate a choice between a certain amount of product A and a certain amount of product B because he can ascertain the price or weight which the individual in question places on each product. The larger weighted amount is the choice.

The seeming great promise of scientific evaluation in economics has led to frustration. It may work satisfactorily for a single individual but what about several individuals, some of whom are affected favorably and others unfavorably? Modern orthodox economists have reluctantly concluded that there is no scientific basis for comparing satisfactions between persons. Marshall had said, "... it would naturally be assumed that a shilling's worth of gratification to one Englishman might be taken as equivalent with a shilling's to another... until cause to the contrary were shown."\(^{10}\) Modern economists accept the view expressed later

\(^{10}\) Marshall, p. 130
by Robbins who:

... maintained that if economics was to have the objectivity of a science, economists may not make interpersonal comparisons and may not, in their capacity as economists, argue for or against any policy or change of policy that would make some people better and others worse off than they were before. Considering that practically every economic change favors some and hurts other people, Professor Robbins was, in effect, barring himself and his colleagues from any policy recommendations whatever. 11

11 Scitovsky, pp. 304-305.

The prospect of scientific evaluation has finally led to no evaluation at all. 12 Money prices as objective evidence of valuation within the scope of positive science turn out to have limited significance.

This study accepts Robbins' position that scientific interpersonal comparisons of benefits are not possible. This follows from the fact that all valuations are ultimately subjective and all scientific knowledge has at most only instrumental value. As scientific valuation is not possible, what is the proper source of value judgments? The answer is the individual affected; and in case there is more than one individual involved, it is every single person affected, with each counting as one. This answer
itself is an aspect of the basic set of value judgments of our society. These have "worked" and become part of our culture. Are they related in any way to science?

Basic values like any other item in our culture can be explicitly and intelligently changed by what was referred to as response policies in Chapter Two. Although values are not scientifically determined, science is relevant. Cultural values and response policies to alter them can be evaluated in the fashion described in this study. The problems involved are of the same kind and may be no more difficult than those involved with the evaluation of any major policy. To be sure, the evaluation of

\[\text{13Can the evolution of culture be influenced in the fashion suggested in these statements? How does culture change? The anthropologist, Ralph Linton, considered cultural change to be initiated by inventions made in response to social needs. Sometimes these inventions were the result of small contributions by many individuals and in other cases a major contribution by a single individual. See Ralph Linton, The Study of Man (New York and London: D. Appleton-Century Company, 1937), Ch. XVIII.}

\[\text{Thorstein Veblen would probably have disagreed with Linton. Veblen contended that end seeking and pragmatism on the part of man were the result of natural selection. Pragmatism resulted from evolution. It did not guide it. The pragmatic bent of man allowed him to adjust to evolutionary changes. It is interesting to contrast this position with the one taken by the philosopher, John Dewey.}

\[\text{In Dewey's thought as seen especially in his later work, Human Nature and Conduct, knowledge and conduct are interactions between the self and the environment. Knowledge or intelligence for Dewey may precede environmental changes, so that the knowledge problem is solved by using ideas as instruments to effect changes. Knowledge or mental adaptation for Veblen generally follows a change in environment so that for him the knowledge consists in catching up with a given change.}\]
Stanley Matthew Daugert, The Philosophy of Thorstein Veblen (New York: King's Crown Press, 1950), p. 77. The position adopted here is that of Dewey and Linton cultural changes is partly subjective but it utilizes objective knowledge and is amenable to positive science. Furthermore, the use of positive science in evaluation can be extended.

It must be recognized that there is a value premise behind the suggestion that basic values in our culture can be evaluated by the general type of process developed in this study. This value premise involves the adoption of the pragmatic ethical standard that things are to be valued according to their consequences as experienced by individuals. This is consistent with an important theme in our American culture. However, this standard should be compared to other ethical standards and subjected to philosophic criticism.  

Summary of Conclusions for Economics

The preceding chapter emphasized that economic theory should correspond to the actual responses of people and that it should analyze consequences of policies and actions not only for real income but for other relevant ends as well. On the basis of the analysis in this chapter of the proper scope of positive science, economics
should also utilize all of the facts related to each consequence; it should have a general concern for the evaluative aspects of individual action; and it should consider the social and political contexts within which individual evaluations of policies are made. It is necessary not only to analyze and present the consequences and associated facts related to a particular policy but also those related to other policies which the context of persons affected is likely to require. All of these matters can be encompassed within a liberal reinterpretation of the traditional concern of the field with the economic use of means to secure desired ends. However, this is a far broader definition of the task than has been accepted traditionally.

It may prove expedient for economists to rely on experts in related disciplines for much of the knowledge which this task requires, and the analysis of this study suggests a number of ways in which such knowledge can be more effectively utilized. Whatever answer is worked out on the basis of experience to the question of division of labor, it seems highly desirable at this point in time that economics accept the responsibility for the analysis of the evaluation of policies and actions and the group decisions concerning their initiation. At present no discipline accepts and discharges this responsibility. The essential unity of the problem requires that it be carried out by a single broad discipline. Economics is the discipline suited by its traditions, interests, and skills for this important task.
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AUTOBIOGRAPHY

I, Blaine Eagle Grimes, was born in Kansas City, Kansas, April 16, 1918. I received my secondary school education in the public schools of that city and my undergraduate training at the University of Kansas, which granted me the Bachelor of Arts degree in 1939 and the Master of Arts degree in 1941. In 1946 I was appointed assistant professor of economics at Ohio Wesleyan University and was promoted to associate professor in 1955. I was awarded a Danforth Teacher Study Grant by the Danforth Foundation, St. Louis, Missouri, for the year 1959-1960, during which time I completed the requirements for the degree Doctor of Philosophy.