Non-Newtonian Economics

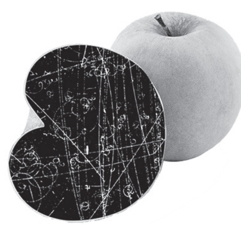
BY THE SAME AUTHOR

The Animating Pursuits of Speculation: Land Traffic in the Annexation of Texas

(1949)

Non-Newtonian Economics

The General Theory of Depression, War and Totalitarianism



Elgin Williams

Introduction and commentary by Robert I. Williams,
with a biographical sketch by Brett Williams

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*Back cover: **Bull Market**, Elgin Williams, oil on canvas 1955*

To the memory of Lucretia Elizabeth Nerio (1952-2020), youngest child of Elgin and Colleen Williams and, like her father, a tireless champion of the poor and oppressed.

Contents

Introduction

Robert I. Williams

As its title suggests, *Non-Newtonian Economics* is a survey of non-orthodox thinking in economics as of the time it was written in 1948.

In sum, Professor Williams defines "Non-Newtonian Economics" as a human wants- and needs-centered economics. He very much objects to those economists who begin and end their analyses from the perspective of the businessman, with an undue focus on business profits, supply and demand, and the mathematics of marginal costs. *Non-Newtonian Economics* asks how the evolving science and practice of economics can better serve the actual living human race, especially around big topics such as war, peace and prosperity. This focus reflects Professor Williams' ever-growing interest during his career in anthropology, as detailed in my sister Brett's biography.

Professor Williams was certainly audacious in the scope of the economics topics he chose to address. Perhaps in his choice of a very broad subtitle ("The General Theory of Depression, War and Totalitarianism") he was mimicking J.M. Keynes' similarly broad-in-scope 1936 masterwork *The General Theory of Employment, Interest and Money*.

Non-Newtonian Economics can be (very poorly) summarized as follows:

1. All modern "capitalist free enterprise" economic systems are based on private property rights, and the force of the state in enforcing those rights.
2. If not the very definition of such inequality, private property ("the system of privatives") necessarily results in economic inequality.
3. Economic inequality creates periodic if not continual failures of consumer demand (the "poverty of the consumer") which in turn cause recessions, depressions, imperialism and wars.
4. The long term fix is to enrich all consumers through more production and more re-distribution of all assets, goods and services,

> reducing inequality through a much more progressive tax code, broader credit availability, aggressive anti-trust action, pro-labor policies, etc.

Or as Professor Williams summarily concludes Chapter 16, his "General Theory" is simply: "Economic inequality produces capitalism, and capitalism produces depressions, wars, and revolutions."

As one early reader put it, *Non-Newtonian Economics* is clearly a young man's book, with much unsparing criticism of the traditional theories of economics of the time. For example:

> To conceive contemporary economic thinking as entirely dominated by the unholy triumvirate of individualist epistemology, business method, and capitalist politics is to paint the picture too black. Certainly the picture *is* black. [page 57]

The book may also be criticized for containing quite a few broad pronouncements on a very wide range of political economics, without in many cases much evidentiary support. Thus, unlike Keynes' *General Theory*, which contains many detailed mathematical models and graphs, *Non-Newtonian Economics* disparages the focus of then-contemporary economists on curves and graphs.

The word "automation" does not appear in *Non-Newtonian Economics*. In a sense this was a mark of the times, in part because the author places much of his analysis of labor-enhancing devices and production efficiencies under the heading of "The Machine." But automation certainly became a big issue in the decades following the composition of *Non-Newtonian Economics*. For a good general history, see Robert McChesney and John Nichols, *People Get Ready* (2016). A sample from page 113:

> As automation and computerization take productive capacity to undreamed-of heights, jobs go more scarce and are de-skilled, many people are poorer and all the talk is of austerity and seemingly endless cutbacks in social services. There is growing wealth for the few combined with greater insecurity for the many. Washington, we've got a problem.

Another general omission—modern economists would say failing—of *Non-Newtonian Economics* is any discussion of the very real and large problems of over-use of shared resources and "external costs." These were already known problems: in 1833, the English economist William Forster Lloyd described over-use of a common resource, when he described how English villagers would rationally allow overgrazing of a common pasture. While Professor Williams blames inequality on private property, private ownership of property does inarguably provides some benefits, in militating against such waste and over-use. Arthur Pigou developed the related idea of external costs in the 1920s. More recently, in 1968, Garrett Hardin popularized the concept in his article, "The Tragedy of the Commons," published in the journal *Science*. However, in fairness to Professor Williams, and considering that the stunning environmental destruction of World War II had not yet come to be appreciated at all, very few economists of the 1940s gave much thought to environmental issues. Rachel Carson's paradigm-shifting *Silent Spring* was not published until 1962.

Given that *Non-Newtonian Economics* is a passionate and very broad attack on the economic systems of his time, with policy prescriptions for what must be done to improve those systems, it is unfortunate that Professor Williams did not offer many suggestions (apart from revolution) on exactly *how* needed changes could be brought about. One imagines that, like many current observers, he would be disheartened to learn of the many present-day structural impediments to achieving any worthwhile political and economic changes in the USA: decline in civics education, polarization, exploitation of political divisions by corporate media (e.g., Fox News v. CNN), death of the Fairness Doctrine and balanced TV news, the Citizens United Supreme Court decision, the Electoral College, equality of voting powers of US senators from large and small states (California and Wyoming), etc.

In the end, however, *Non-Newtonian Economics* is an ambitious and very comprehensive critique of the limited vision of the economics theories and practices of its time.

Regarding Notes

The author's own notes—interpolated within the main body of his 1948 typescript—have been rendered in these pages as endnotes following each chapter. Within the text, they are denoted by means of numerical superscript, thusly.[1] *The editors have contributed a few observations and clarifications of their own, and these have been remanded to a separate section in the latter pages of this volume. Within the text, the editors' comments will be indicated with an alphabetic superscript.*[a] *Unless otherwise specified, all notes in this latter category have been written by Robert I. Williams, the infrequent exceptions being contributed by Rand Careaga and designated [RC].*

Preface

Economists like other men sometimes give way to complacency. They have become especially prone to do so in recent years when so many problems of the day have been of an economic nature. When the whole community is clamoring for their services and their opinions it is understandable that many economists should feel, with pardonable pride, that "Economic science…has…made better progress in the application of scientific methods to the study of human conduct than has been made by the other social sciences."

Complacency is not the whole story, however. A large and growing percentage of the profession is not so sure of the progress which has been made. In part these malcontents feel that economics is too much engaged in the contemplation of its navel. Instead of applying scientific methods to "the study of human conduct" too many of the present generation of economists, in their view, are applying themselves to the study of economics. The dissatisfaction with this ostrich-like approach is increased by its unqualified acceptance in orthodox quarters, where devotees of the established intellectual order are openly boasting that "The subject-matter of economics is nothing more nor less than its own technique."

The malcontents are convinced that the profession is guilty of sin of omission as well. Where economists do study human conduct they seem to have an aversion to those varieties of conduct which are of most importance to the citizen. Even the most advanced economists, those least guilty of "ivory tower" thinking, have devoted their time to constructing theories of employment, interest, and money; both the student of economics and the average citizen want a theory of the October Revolution, Buchenwald, and World War II.[a]

The present book is conceived as a contribution to "this fascinating 'no man's land' in academic specialization," as Harry D. Gideonese has called it. The author is well aware that an investigation of the state of our knowledge about the causes of war and revolution will be held "outside the province" of economics. Even the most distinguished recent contributor to the "no man's land" so holds. Professor Friedrich Hayek takes care to distinguish his investigations of such problems as "the relations between the decline of the free market in economics and the growth of arbitrary power in polities" as political tracts rather than as contributions to economic theory proper.

This action of Professor Hayek is very significant, for we know him to be passionately concerned with the crucial deeds which governments and citizens are making today in both the economic and the political realm. If to affect these decisions Professor Hayek must write political tracts, his action amounts to an admission of a state of things in economics which other people had begun to suspect. This state of things is this:

The body of economic "theory" today, as anyone knows who has had a college course in the subject, consists of a barrage of curves and formulae which are of little use to citizens. The books on economic theory are like the college courses.

In the specialized course dealing with "economic problems," however, and in the more or less "popular" books dealing with the same problems one feels much closer to reality. Teachers note an unfailing interest in the problems of depression and "government control of business"; they note an apathy bordering on disgust when it comes to "pure theory." The general public likewise avidly devours the latest discussions of inflation, labor problems, and "the spread of communism" while remaining blissfully ignorant of "marginal analysis."

Professional economists are disposed to find this situation alarming and frequently bewail the lack of interest in "pure theory." But they would do well to study the past. It is the rule of history that economics grows in the soil of popular discussion. The "problems" of one day become the "theory" of the next. The main drift of economic theory at any given time is usually a blind alley; in the nooks and crannies are formulated that "systematic knowledge of things as they are" which we call theory.

It is the argument of this book that there already exists in the nooks and crannies of present day economic discussion a body of information which, once it is seen as a whole, amply deserves the name of economic theory. The author believes that this claim is becoming daily so obvious that before long the promulgation of longwinded classifications of hypothetical trivia which now usurps the name of theory will disappear by obsolescence.

Because so much of their work is destined for the discard, it is pleasing to find that much of "the new economics" has been contributed by the very same persons who have devoted most of their time to the promulgation of trivia ("theory"). The men who have not allowed their academic puzzles completely to obscure the realities of the world and who have in consequence contributed to "the new economics," usually in connection with community crises and difficulties, include most of the leaders in the profession past and present. The main part of this book is devoted to rendering in eclectic but, it is hoped, integrated fashion the results of their investigations. Many of these results are accepted by all economists, although the propositions involved have not acquired the dignity of "theory." Other results of economic inquiry here set forth are not yet generally accepted but tend more and more to be.

Although the main emphasis in this book is on the new economics which has grown up where men have wrestled with the problems of the twentieth century, a process of growth which has involved a re-evaluation of the economic thought of preceding centuries, some attention has been paid to "the old economics." This is regrettable. "Marginal analysis" has been criticized hundreds of times with no perceptible result. Like the problems of metaphysics, the problem of present day economic "theory" will not be solved but forgotten, neglected for other interests. Nevertheless some excursion into the old economics is thought necessary to inform the non-professional reader of the state of the profession.

For it is a fundamental discovery of the new economics that the "consumer interest" is decisive in bringing about change in all fields of modem life. Economic inquiry itself is no exception to the rule. The consumers of economics, functioning as readers, critics, and students, are bringing to fruition processes of change initiated by the great pioneers of economic thought. It is no accident either that many of those pioneers themselves have been amateurs—that is to say, consumers. The fact that these thinkers have been men of wide interests instead of devotees of narrow "theoretical" fads is symbolic too of the growth of scientific synthesis to which the new economics is contributing and of which it is a part. The "unity" which the modern world seeks will be achieved by a common approach to all of life's problems. The scientific approach in economics and the other social disciplines is already abolishing the boundaries between these disciplines, just as it is subjecting all social institutions to a common scrutiny.

Seattle, Washington
March 15, 1948

Chapter I:

Economics and Physics

Many economists have foreseen transformations of economics resulting from developments in the other social sciences. There have been attempts to bring the discipline of Ricardo and Smith up to date by the application of modern psychology. Here and there students have called for a "sociological economics" or for the injection of those techniques and attitudes of political science which would bring—or return—economics to the status of "political economy." Fifty years ago Thorstein Veblen quoted with approval the statement that "Anthropology is destined to revolutionize the political and the social sciences as radically as bacteriology has revolutionized the science of medicine."[1]

Yet none of these developments has come to pass. Neither psychology nor sociology nor political science nor anthropology has had any fundamental influence on the "dismal science." By one of those paradoxes of intellectual evolution which enrich the history of ideas, the generality of economists have done their borrowing not from the allied social sciences but from a discipline at almost the furthest remove of investigation. This discipline has been, of all things, physics.

This influence is obvious in the very terminology the economists employ. They are concerned with the "circulation" of money and commodities and the "balance" of trade. They trace business "cycles" in their various phases of "expansion" and "contraction." Prices they find to "gravitate" about certain normal points. The upshot of all this expansion, contraction, and circulation is "equilibrium" or "disequilibrium."

Such usage was common even with the early economists. David Hume, the contemporary of Adam Smith, found it natural to write that "Just as water, wherever it communicates, remains always at level, so it is with money and trade, when in free circulation.... It is impossible to keep up money, no more than any fluid, beyond its proper level."[2]

We can understand this manner of expression if we remember the enormous prestige which physics had in the eighteenth century and which it still has. As the most spectacularly successful of the sciences it came in early for imitation by workers in almost all fields, including economics. And the longer the practice of the "science of wealth" the more sophisticated its use of physics became. A distinction between economic "statics" and economic "dynamics," for instance, came into use, Professor J.M. Clark tells us, "in the middle of the nineteenth century—a time when mechanical analogies were freely used in social thinking."[3]

But sophistication is not always evidence of science. And the "cross-fertilization" of the sciences is not necessarily productive. The fact that almost all economists since Adam Smith's day have learned the jargon of physics does not prove, on the face of it, anything more than that the jargon has been learned. To call depression "disequilibrium" and the sequence of prosperity and depression a "cycle" does not tell us any more about these phenomena.

In fact just the opposite may be the case. The effect of the influence of physics upon economics may be downright harmful. It is possible that the use of metaphors and analogies from physics is not only not clarifying but actually confusing. Certainly people do not ordinarily review their depression experience in terms of "expansion" and "contraction." The man in the street is likely to receive the characterization of the past twenty or thirty years as so many "cycles" in "the rhythm of business activity" with bewilderment. Again, ordinary folk—especially in time of inflation—are wont to ponder how "fluid" money is, but scarcely in the sense David Hume did!

There are some who say that this confusion wreaked by economists through their use of terms from physics is deliberate, or at least not unsatisfactory to them. This is what Professor Clark has in mind when he points out that the assumptions of economic "statics" were in existence "much earlier" than the nineteenth century and remarks that "The eighteenth century idea of the natural order gave a prevailingly static tone to the social thinking of which it formed the background."[4] For this "eighteenth century idea of the natural order" which is perpetuated by the physical metaphors and analogies of twentieth-century economics is a very comfortable idea indeed. As such it is only the latest of its kind. As Professor R.H. Tawney has pointed out, a similar idea reinforced by similar analogies was very comforting to the Schoolmen.

No one doubts that the scholars of the Middle Ages as they looked around the economic system had plenty to be comforted about. "The very essence of feudal property," Professor Tawney reminds us, "was exploitation in its most naked and shameless form, compulsory labor, additional *corvées* at the very moments when the peasant's labor was most urgently needed on his own holdings, innumerable dues and payments, the obligation to grind at the lord's mill and bake at the lord's oven, the private justice of the lord's court." Nor is this view of feudal property as "naked and shameless" exploitation merely Professor Tawney's *post hoc* opinion. "The Peasants' Revolt in England, the *Jacquerie* in France and the repeated risings of the German peasantry reveal a state of social exasperation which has been surpassed in bitterness by few subsequent movements."[5]

Now what was the reaction of the economic scholars to all this? They did not write about naked and shameless exploitation. Instead they engaged in metaphorical interpretation of the precise sort we are familiar with in later economic theorizing.

> From the twelfth century to the sixteenth, [Professor Tawney writes] from the work of Beckett's secretary in 1159 to the work of Henry VIII's chaplain in 1537, the analogy by which society is described—an analogy at once fundamental and commonplace—is the same. Invoked in every economic crisis to rebuke extortion and dissension with a high doctrine of social solidarity, it was not finally discarded till the rise of a theoretical individualism in England in the seventeenth century. It is that of the human body.
>
> The gross facts of the social order are accepted in all their harshness and brutality, if they are accepted with astonishing docility, and, except on rare occasions, there is no question of reconstruction. What they include is no trifle. It is nothing less than the whole edifice of feudal society—class privilege, class oppression, exploitation, serfdom.
>
> But these things…must be given some ethical meaning, must be shown to be the expression of some larger plan. The meaning given them is simple…

> Society, like the human body, is an organism composed of different members. Each member has its own function, prayer, or defense, or merchandise, or tilling the soil. Each must receive the means suited to its station, and must claim no more. Within classes there must be equality; if one takes into his hand the living of two, his neighbor will go short. Between classes there must be inequality; for otherwise a class cannot perform its function, or—a strange thought to us—enjoy its rights.[6]

In such a way (we recognize now) "the teleology of medieval speculation colored the interpretation of common affairs," and the medieval "science" of economics taught that preachers, defenders, and laborers were head, eye, and arm of the social organism. But when this teleological interpretation of affairs was discarded with "the rise of a theoretical individualism in England in the seventeenth century" no significant change occurred. The interpretation of affairs this time became "colored by physics" and "the facts of competition were rationalized in the eighteenth century" as the facts of class status and inequality in the Middle Ages.[7]

Traditionally, then, economic science has rationalized the economic system of which society finds itself possessed, inventing the most ingenious analogies to explain away the most appalling social conditions. Serfdom is "order" and the hurly-burly and distress of modern times is a "system" tending to "equilibrium."

This whitewashing role is the aspect of traditional economic theories which most concerns such folk as Marxists, who delight in exposing pretended "objective students of society" as handmaidens of vested interest. Certainly the justification of mediæval and capitalist society which the canonist and classical economist provided was little short of criminal. But there is another crime which these "students" committed which has for some reason drawn less criticism but which is equally important.

This "crime" is an intellectual one. The fact is, the "explanations" of neither the canonists nor the classicists explain. Theories of society should somehow "account for" the stream of change which is social life. And Adam Smith and David Ricardo and Alfred Marshall and their followers have no more traced the connections among the significant phenomena of modern times—depressions, wars, and revolutions—than St. Thomas

Aquinas and St. Antonino and Nicholas Oresme traced the outlines of a theory of peasants' revolts and rising capitalism.[a] Both sets of scholars gave names to various parts and processes of the economic world—the Schoolmen favoring analogies from the human body and their successors busy with metaphors from physics. But name-calling—although it often rises to the rank of literature—is not science.

This charge that traditional economics consists of name-calling, or "taxonomy," is of course usually identified with Veblen, the economic heretic. Less concerned than the Marxists with the rationalizing function which economic theory plays, he was more concerned with its failures in explaining what makes things what they are. Veblen objected to the physical "jargon" of economists precisely because it failed to clarify economic events—in fact, unintentionally obscured them.

> With later writers especially, [he wrote] this terminology is no doubt to be commonly taken as a convenient use of metaphor…But it is precisely…this use of figurative terms for the formulation of theory…this facile recourse to inscrutable figures of speech…that has saved the economists from being dragooned into the ranks of modern science. The metaphors are effective, both in their homiletical use and as a labor-saving device—more effective than their user designs them to be. By their use the theorist is enabled serenely to enjoin himself from following out an elusive train of causal sequence. He is also enabled, without misgivings, to construct a theory of such an institution as money or wages or land-ownership without descending to a consideration of the living items concerned, except for convenient corroboration of his normalized scheme of symptoms.[8]

Such are the dangers of borrowing from physics! Not only is one likely to select metaphorical expressions for their virtues as preachments, but the very act of "labor-saving" is treacherous—"the theorist, is enabled serenely to enjoin himself from following out an elusive train of causal sequence. He is enabled, without misgivings" to construct theories of economic institutions "without descending to a consideration of the living items concerned."

Nevertheless it may be that the dangers which beset the classical economists and their present-day successors were not inherent in the idea of borrowing but in what was borrowed and to what use it was put. Primarily, as we have seen, it was terminology which was borrowed, terminology which was then applied uncritically to social events—to save the labor of investigating them, among other things. But even Veblen—or, rather, most of all Veblen—would not object to certain kinds of borrowing, as his ironical reference to economists' being "dragooned into the ranks of modem science" implies.

The kind of borrowing which economics needs is that which would import the methods of scientific inquiry into the halls of economic discourse, which is at present, as Veblen said, "at its worst…a body of maxims for the conduct of business and a polemical discussion of disputed points of policy" and "at its best…a system of economic taxonomy"[9] This sort of borrowing is already going on—in fact, it has been going on for some time. The results are already impressive enough to be counted, in contrast to the old economics with its far-fetched metaphors and incomprehensible analogies based on Newtonian mechanics, a systematic aiming to deal with such realities as Hitler, Stalin, and two World Wars. In building up this body of theory, in following out train after elusive train of causal sequence in the modern world, the non-Newtonian economists have implicitly carried out the injunction of the greatest of the non-Newtonian physicists, an injunction Newton himself would have done well to make in his own time.[b] Albert Einstein served economics and indeed all social studies well when he enjoined students to pay attention to what physicists do, not what they say. The resulting science of economics, ill-integrated though it yet is, already shows itself as much different from and as much superior to the traditional theories as relativity physics is different from and superior to the ideas about matter and energy it replaced.

Notes

1 Thorstein Veblen, "Why is Economics Not an Evolutionary Science?" *Quarterly Journal of Economics*, XII (July 1898) reprinted in *The Place of Science in Modem Civilization* (New York, 1919) p. 56.

2 Quoted by Max Beer, *Early British Economics* (London, 1938) p. 225.

3 J.M. Clark, "Supply and Demand," *Encyclopædia of the Social Sciences* (New York, 1930) XIV, p. 352. Professor Clark gives several examples of the lengths to which these physical analogies are stretched. Thus in economic "dynamics" a "demand schedule...becomes a surface of three dimensions, produced by a... static demand schedule moving through time..." etc., etc.

4 *Ibid.*

5 R.H. Tawney, *Religion and the Rise of Capitalism* (New York, 1947) p. 56. (This economic classic is now available as a "pocket book.")

6 *Ibid.*, p. 27.

7 *Ibid.*, pp. 26-27.

8 Thorstein Veblen, *op. cit.*, pp. 66-67.

9 *Ibid.*, pp. 67-68.

Chapter II:
Commonsense and Nonsense

In all probability the future historian of economic thought will not find that the "new economics" developed without false starts. While the influence of modern physical inquiry upon economic investigation has certainly been more salubrious than that of its Newtonian ancestor, this recent borrowing too has raised difficulties.

Even the lesson of figurative terminology has not been completely learned. Disregarding Einstein's advice, ambitious economists have tried, for instance, to create a "relativity economics," and in the process the very concept of "relativity" has become a "labor-saving device" through which "the theorist is enabled serenely to enjoin himself from following out an elusive train of causal sequence." The relativity economists play on the use of the same word in philosophy and physics to preach with the presumed authority of modern science that economic value is relative to the individual culture. This conclusion is in line with the traditional hedonism of economic theory at the same time that it avoids "descending to a consideration of the living items concerned." And, needless to add, this use of the concept of "relativity" has nothing to do with its use in physics.[1]

Despite such false starts, however, economics is learning by example. Professor J.B. Condliffe has pointed out, for instance, that physicists "avoid meaningless questions." He notes that "their definition of a meaningless question is one for which it is not possible to invent operations by which an answer may be found" and points out that economists are coming to treat some of their most cherished concepts, particularly the concepts of "utility" and "productivity," as meaningless.[2]

Again, the willingness of physical investigators to employ new concepts when the data require—instead of passing over data which does not fit their preconceptions—is finding emulation. Those economists who are beginning to ask questions about such things as "power," "welfare," "security," "creative opportunity, "status," and so on, can deal with problems untouched by the traditional concepts of "wealth" and "value."[3]

These two suggestions from physical inquiry which Professor Condliffe considers so carefully have been extremely fruitful in economics. In addition two other developments also indicate the emulation to good purpose of the work in the laboratories at the other end of the university.

One of these developments in economics stems from an idea of the physicists and the other from their method of approach. The idea is a very simple but a very radical one. It is this, as anyone acquainted with the startling discoveries of twentieth-century physics will recognize as the working hypothesis of that amazing science: Commonsense is nonsense, and vice-versa.

The method of approach is also very simple. It is to attempt explanations which cover all the phenomena encountered in observation, the "exceptions" as well as the "rules." It is recognized that the integration of phenomena not formerly covered will frequently involve the reformulation of entire scientific systems. As Professor Souter reminds us, "Even a science which has attained to the degree of 'maturity' reached by Newtonian physics is…not immune from the disconcerting experience of having its ultimate truisms dissolve beneath its feet, and of being compelled to face the task of drastic theoretical reconstruction in terms of more adequate and more fundamental categories."[4]

The idea and the method of course go together. It is no accident that the revolution in physics which we associate with such "nonsensical" statements as those which talk of four dimensions, the identity of matter and energy, and "curved space" provided those "more adequate and more fundamental categories" which accounted for physical anomalies which had troubled investigators for decades. There is no way to talk about the anomalies—except in the new terms—if one wishes not to sound anomalous.

Both of these developments have occurred in economics, and for precisely the same reasons. Three generations of economists have been troubled by the anomalies of depression, war, and revolution from left and right. These persistent phenomena have come into the body of economic theory as "exceptions," "disturbing causes," "non-economic phenomena" if they have come in at all.

Those theorists past and present who have attempted to explain these important phenomena in their own right, by the use of "more adequate and more fundamental categories," have at the same time found certain "ultimate truisms dissolve beneath" their feet. When economists began to realize that "business cycles are, and always have boon, a 'normal' constituent of an 'individualistic' system" there followed "a deepseated change in social attitude towards the phenomena of instability and insecurity," a change which looked toward "a progressive modification of our fundamental institutions."[5]

The truism which dissolved beneath the impact of the great depression was that of *laissez-faire*. But the whole philosophic basis of economics was involved. It is in the realm of the basic philosophical attitudes of "individualism" which only find expression in the governmental policy of *laissez-faire* that commonsense has become preeminently nonsense, and vice-versa, in the new, non-Newtonian economic theory.

Notes

1 J.B. Condliffe, "The Scientific Revolution," *Proceedings* of the Twenty-First Annual Conference of the Pacific Coast Economic Association (Berkeley, 1947) with its reference to R. W. Souter, *Prolegomena to Relativity Economics* (New York, 1933).

2 Condliffe, *op. cit.*

3 *Ibid.*

4 Souter, *op. cit.*, p. 2.

5 *Ibid.*, p. 164.

Chapter III:
Economics' "Ether Hypothesis"

Common sense becomes suspect when repeated experience goes contrary to common sense. It was common sense in the days of pre-relativity physics that the spaces of the universe were filled with ether, an air-like medium through which the earth presumably traveled, "So here was a case," Professor H. A. Lorentz, the collaborator of Einstein, tells us, "comparable with that of a railroad coach open on all sides. There certainly should have been a powerful "ether wind" blowing through the earth and all our instruments, and it was to have been expected that some signs of it would be noticed in connection with some experiment or other." But, common sense to the contrary, every attempt to observe the "ether wind" remained fruitless. One of Einstein's contributions to physical understanding, therefore, was simply to drop the hypothesis of the ether. "For him," as Professor Lorentz says, "the ether does not function and in the sketch that he draws of natural phenomena there is no mention of that intermediate matter."[1]

The other components of non-Newtonian physics have come about in like fashion. The observed orbit (or "perihelion") of Mercury was not "what it should be" according to the Newtonian theory. Neither were the observed deflections of rays of light passing near the sun—wherefore the extreme importance of the eclipse of 1919, which made possible a most accurate check of these deflections and catapulted "Einstein's theory" to the front pages. There was an exception to the Newtonian rule in the displacement of lines in the spectrum to the red. And so on. In short, as Einstein himself explained, there were "multitudes" of "phenomena in electro-dynamics, as well as mechanics (which were) irreducible by the old formulae..."[2]

It took the nonsense of the so-called "fourth dimension" to straighten out all these contradictory and unexplained physical phenomena. A similar process of observed contradiction and proposed rehabilitation is taking place in economics. The nonsense which is required to make this rehabilitation complete is much stranger even than the "fourth dimension," because it goes against prejudices common not only to the fraternity of economists in their professional capacities but to almost all citizens of Western civilization.

The common sense of economics is individualism. This is as it should be, for, as Professor Albert Meyers reminds us, economics is only "common sense made difficult,"[3] and ours is an individualist society.

We usually think of this individualism as political. Actually our individualism in ways of thinking, and especially in ways of thinking *about* our thinking, has been of equal importance in Western life, and especially in Western economic doctrine. Political individualism and individualism in thought are of course associated. But their association raises problems. "...The conception of progress as a ruling idea," the foremost modern philosopher tells us, "the conception of the individual as the source and standard of rights, and the problem of knowledge were all born together."[4]

It may be, as John Dewey says, that "Given the freed individual, who feels called upon to create a new heaven and a new earth, and who feels himself gifted with the power to perform the task to which he is called—and the demand for science, for a method of discovering and verifying truth, becomes imperious."[5] But this "imperious demand" has never been felt by the run of economists. In economic thinking the individual is conceived not only "the source and standard of rights" but as the source and standard of truth itself. The common sense of economics is revealed most clearly in what it has at this point done with the "problem of knowledge."

The solution which economics has offered to the problem of knowledge, "the fundamental political problem of modern life," has been to put forward the "claim of the individual, to be able to discover and verify truth for himself."[6]

To be sure, this claim of the individual "to be able to discover and verify truth for himself" has not been pushed too far. The laws of economics, for instance, are not to be chosen according to taste! But in the realm of opinion the individual is given full sway. Thus one economics text widely used at the present time invites students to mark the difference between "statements of fact, subject to proof or disproof" and "expressions of opinion." The latter—which include all "should be" statements—are individualist territory. Professors Frederic Benham and Francis M. Boddy hold that

> Most people take it for granted that (full employment, better standards of living, less economic inequality, and social security) are desirable. But there is no way of proving that they are desirable. If anybody declares…that in his view poverty is more ennobling to the human character, and that therefore standards of living higher than the barest subsistence minimum should be avoided, we can only say that we disagree.[7]

Again, "Whether or not capitalism is a better system than its opposite of complete central planning is a matter of opinion."[8]

It is of some interest to us to note that the authors of the above and similar statements do not always practice what they preach, which sometimes give an air of self-contradiction to their work. After stating that the goodness or badness of capitalism is a matter of opinion, they nevertheless in the next sentence seem to act as if they were dealing with a "statement of fact, subject to proof or disproof." Capitalism, they say, "certainly"—certainly no one would speak "certainly" in a matter of opinion—"leaves far more scope for personal freedom and initiative in economic affairs; on the other hand, it may lead…to abuses and evils such as private monopoly and large-scale unemployment."[9]

It is true that some of the facts appealed to in these "matters of opinions" do not quite have the persuasive power they used to have. Professors Benham and Boddy quote Arthur Young's famous dictum, "The magic of property turns sand into gold." But American experience with the national park system does not offer irrefutable evidence that "Land which is owned by nobody tends to be neglected," nor are our major irrigation and reclamation projects the outcome of private initiative. Again, the factual importance of such statements as "Private property, in contrast to central planning, means decentralization of the task of obtaining information and making decisions" dwindles in an age of Temporary National Economic

Committees and their reports on "concentration of economic power."[10]

But after all the main point here is not that so-called "expressions of opinion" are sometimes scantily buttressed by evidence. The point is that no "opinion" is ever offered without evidence, evidence subject to proof or disproof. In such a state of things the persistence of a formal dualism between fact and opinion leads only to confusion and contradiction, it may all be summed up by one final quotation from Professors Benhara and Boddy: "Whether or not capitalism is the best system," they write, "must inevitably be a matter of opinion. Some people may reserve their verdict until they see whether or not the system can succeed in preventing mass unemployment."[11]

But even here, where the contradiction should be manifest, the economists true to the tradition of their science formally stick to what may be called "investigative individualism." "Some" people "may" reserve their verdict on what "must inevitably be a matter of opinion." In this regard they are like all good economists. One of their fellows states that

> The economist…passes no judgment on the merits of [desired results]. For instance, economics cannot prove whether or not this country would actually be a better place if everyone had absolutely equal wealth and absolutely equal income. …The desirability of economic equality is disputed and hence there are no absolute criteria on which to base judgment. …Perhaps our present rate of material "progress" is too rapid. Who knows? …It is not the intention of the author to influence opinion on questions such as these.[12]

And from another source we hear:

> The economist is not, as economist, a politician or voter. He does not decide what would be an ideal society. He does not tell anyone what social or private ends are in themselves desirable. The decisions as to what shall be the ends of action or policy rest with the members of the society and cannot be determined by any scientific rules.

The title of the book from which the latter paragraph is taken is *Economic Analysis and Public Policy*.[13]

Thus rampant is "investigative individualism." Economists boast of their inability to pass judgment on disputed questions. After all, who knows? "We do not know," Professor Frank Knight has recently written, "either what are right ideals, or how the social-economic process works and what it can be expected to bring forth in the absence of interference, or how to interfere 'intelligently' with its 'natural' operation and development."[14]

This particular statement of the matter, incidentally, was so extreme as to call forth comment even among the economists—who are perhaps worried about too many professions of ignorance interrupting their paychecks as consultants to governments and corporations! As one of them put it,

> Professor Knight, as we all know, has deeply drunk of the Pierian spring, but one cannot but wonder whether the sobriety he has thus attained is not more dangerous than a measure of the intoxication of ignorance and faith. The latter leads to all sorts of errors and confusion, but the former might afflict us with social paresis. ...Mystery...or plain ignorance seems to be the last word in the discussion of all the main elements in the political-economic problem.[15]

On this point at least economics is unique among the sciences, past and present. Most of them have had to be revised because their common sense made them think they knew too much. The common sense of economics is "mystery or plain ignorance."

The outcome of this absolute refusal to investigate the desirability of economic equality, the reality of "progress," whether or not capitalism is the best system, and so on, does tend to social paralysis. But it is not certain that the method of "plain ignorance" is not afflicted also with "errors and confusion." It is at this point, indeed, that the old economics is having its troubles. All sorts of difficulties are raised by the statement that "The ends of action cannot be determined by any scientific rules," including suspicion of the rules under which the statement itself is made.

So it is to these difficulties and the full working-out of the economic common sense which gives rise to them that we must now turn. For investigative individualism is economics' "ether hypothesis." From the hypothesis that statements of fact differ from statements of opinion stems economics' method of analysis and therefore the irreducible equations of its political philosophy and its absolute failure to take theoretical account of the chief economic developments of the modem era.[a] The contribution of developing non-Newtonian economics has been simply to drop this hypothesis, even though at first this seems nonsense.

Notes

1 H.A. Lorentz, *The Einstein Theory of Relativity* (New York, 1920) 31-2.

2 *Ibid.*, p. 12.

3 Albert Meyers, *Modern Economics* (New York, 1942) p. 8.

4 John Dewey, "The Significance of the Problem of Knowledge," in *The Influence of Darwin on Philosophy* (New York, 1920) p. 287.

5 *Ibid.*

6 *Ibid.*, p. 287-8.

7 Frederic Benham and Francis M. Boddy, *Principles of Economics* (New York, 1947) pp. 23-24.

8 *Ibid.*, p. 27.

9 *Ibid.*, pp. 27-28.

10 *Ibid.*, pp. 28-31.

11 *Ibid.*, p. 41.

12 Meyers, *op. cit.* pp. 10-11.

13 Mary Jean Bowman and G.L. Bach, *Economic Analysis and Public Policy* (New York, 1946) p. 146.

14 Frank H. Knight, *Freedom and Reform* (New York, 1947) p. 128, quoted by Frank D. Graham, Review, *American Economic Review*, (December, 1947) p. 938.

15 Graham, *Ibid.*

Chapter IV:

The Philosophy of Individualism

Traditionally most economists, unlike Professor Frank Knight, have admitted their competence to deal with the problem of "how the social-economic process works," under both *laissez-faire* and governmental interference. But like Professor Knight they have confessed, indeed boasted as the hallmark of "liberalism," an ignorance of "what are right ideals."

In so doing economists are at one with other social scientists. The idea is that scientists are experts at producing ingenious devices, from sulpha drugs to social remedies, but their competence does not extend to the use of these devices. Science is incapable of answering "the question as to *whether we want to employ* either sulpha drugs or particular social remedies." Such a question "may properly be settled by popular vote." "Science cannot and should not tell people what they ought to want."[1]

Economists who fall to grasp "this distinction between the proper place of scientific authority and popular will" are held to be nothing less than charlatans. For any scientist, preacher or poet to say that man "should" pursue other ends than he does is to set himself up as God. "This may be a proper indulgence for preachers and poets but hardly for scientists."

This is the case because the work of scientists "obviously" is amoral, without meaning in terms of the ethical and political issues of the day. "Consider the Census Bureau facts and generalizations regarding trends in our population, labor force, and income. Are these conclusions Communist, Capitalist, or Fascist? The question makes no more sense than to ask whether the law of gravity is Catholic, Protestant, or Pagan." In personal terms, "I can certainly report and understand the bald fact that a certain tribe kills its aged and eats them without saying one word about the goodness or badness of that practice." And "The chemist who vigorously campaigns against the use of certain gases in war obviously cannot allow that attitude to influence in the slightest degree the methods of producing or analyzing these gases."

The hallmark of liberalism thus becomes the charter of irresponsibility. "Competent sociologists, educators, or psychologists should be able to advise a parent as to the most convenient way of converting a son into an Al Capone or into an approved citizen, according to what is desired." "A competent economist or political scientist should be able to devise a tax program which will fall in whatever desired degrees upon each of the income groups of the area concerned."

Such competent social scientists "with such adaptability" will "acquire an immunity from social change." With their traditional respect for the natural sciences the Newtonians point out that physical investigations are unlikely to be disturbed in their labors when a political upheaval comes along; social scientists should strive for a similar position. "The services of *real* social scientists would be as indispensable to Fascists as to Communists and Democrats, just as are the services of physicists and physicians." The fundamental reason that the social sciences are not yet in this enviable position "lies in their comparative incompetence."

There results a willingness to embrace whatever there is in the way of social order or whatever the future may happen to bring along. *Real* social scientists would not have any attachment even to democracy. "The mere fact that I personally happen to like the democratic way of life…is of little or no importance as touching the scientific question at issue. My attachment to democracy may be, in fact, of *scientific* significance chiefly as indicating my unfitness to live in a changing world." Indeed, in the Newtonian view the very prestige of science itself is due to its indifference to changes in economic and social systems. The value of scientific knowledge "lies precisely in…impersonal, neutral, general validity for whatever purposes man desires to use it."[2]

In short, "Science only provides a car and a chauffeur for us. It does not tell us where to drive." The difference between science and non-science is the difference between statements of fact and expressions of opinion—where scientists express opinions on matters of politics and economics they aim, wittingly or no, at the dictation of conduct.

In this fashion the Newtonians make out a case for the reservation of opinion on economic questions to the individual citizen. The making out of such a case is crucial to the whole strategy of Newtonian economics. Its entire structure is reared on the hypothesis that ends (wants, opinions) are different from means. Ends as concretized in social institutions are beyond criticism, and must be taken as "given," as "primary data." With such a point of departure it is no wonder that the workings of capitalist institutions which have brought about recurrent depressions, imperialism, world war, and totalitarianism have not even been investigated, let alone understood. Economists have not examined the workings of capitalist institutions which produce wars and revolutions because their basic philosophy bids them accept these institutions as given—that is, as sound.

But the case which can be made out for this basic philosophy with its intellectual "hands-off" policy is not a very strong one. In the first place, the case is obviously "loaded." To favor the "popular will" is to intimidate critics from the outset. People do not like to be told where to drive, or what to do, and if the pretensions of economics and other social studies to fashion ideals can be labelled as such dictation of conduct, they can be dismissed as such.

Yet even people who pride themselves on their individualism must admit that there is something a little strained about such interpretations. Skilled dialecticians can pose imaginary alternatives to buttress the case for scientific amorality and investigatory individualism. "It is one thing for a physician to tell a patients 'Unless you undergo this operation, which will cost so much in time, money, and pain, you will probably die in one month.' It is another matter to say: 'Science, for which I am an accredited spokesman, says you shall undergo this operation.'" But surely everyone recognizes such situations as imaginary.

The major error of investigative individualism, in other words, is that in its jealousy for our freedom it has neglected the commonest matters of observation. In effect social scientists who profess to fear "scientific dictatorship" equate the state of being "under doctor's orders" to that of being under Hitler's orders.[a] Presumably traffic regulations too are suspect since they "tell us where to drive," even though a majority vote would probably retain our street signals and highway markers. The most elemental distinctions between arbitrary and functional power fail to be made in the name of the "distinction between the proper place of scientific authority and popular will."

Indeed this latter distinction itself is a red herring. The popular will is not so arbitrary as, for instance, the American founding fathers with their fear of "the mob" have led whole generations of American students to believe. Public opinion polls reveal habit and prejudice, of course, but they also reveal an electorate prone to investigate issues and weigh decisions with that habit of mind which in other locales we identify as "scientific." On the other side, it does not make much sense to speak of "scientific authority" as falling to involve, or as divorced from, "popular will." It is evidently the will of the populace to have physicians and chemists and even economists, since our legislatures regularly (if at times reluctantly!) vote funds to the universities for their training.

Nor are these the only mistakes of fact to which a theory of economic science based on the dictum that "Science should not *(sic!)* tell people what they ought to want" is heir. There is, for instance, that assumed difference between statements of fact and expressions of opinion. *Does* it make sense to ask whether the law of gravity is Catholic, Protestant or Pagan? It is surely a fools' paradise which is occupied by people who think that even physical science is so self-evidently without implications for the established social order that they have forgotten about Galileo. On the other hand, dismissal of the question of the political bearing of census reports as meaningless does not entirely convince an age accustomed to "liquidations" in the Soviet census bureaus and the denunciation of "New Deal statistics." Looking at the matter from its positive side, the US census facts and generalizations regarding population, labor force, income, and so on are certainly filled with suggestions for the modification of our economic system. Specifically, as almost all economists would agree, they are "anti-capitalist" in the same sense that the laws of the physical world were in immediate and direct opposition to the deliverances of theologians regarding the moons of Jupiter.

The strain which the distinction between facts and opinions involves is also clearly revealed by the tortured examples chosen by those determined to set forth this distinction in the interests of a misconceived "relativism." Here we recall "the bald fact that a certain tribe kills its aged and eats them." Surely everyone is by now so familiar with these cases of geronticide (and infanticide) dictated by tribal poverty that the "bald facts" themselves preach the moral: TVA's on the Amazon. And he who still believes that scientists do not allow their feelings about weapons of war to influence their production of these weapons should take a look around him.

In general it is too bad that economists and other students of society are so busy concocting proofs of their basic theoretical position that they do not have time to look around them. One of the things which might be noticed is there is already a great deal of agreement upon "ends"—no parents desire their children to be Al Capones, for instance. This actual employment of agreed-on criteria should suggest possible agreed-on theoretical criteria useful not only in child-rearing but for such problems as "whether or not capitalism is the best system." Actually many such objective theoretical criteria already exist, and for good reason. No competent economist would devise a tax program for a president who desired the rates to fall, say, heaviest on the lowest-income groups since economists know that such "regressive" taxes are destructive not only of government revenue but of the national income itself. Economists who still believe that their function includes the taking of "ends" for granted nevertheless speak of certain "ends" as self-defeating. Calling an end "self-defeating" does not condemn it, apparently!

The corollaries of "investigative individualism" involve other confusions. The immunity of physical scientists from political interference, for example, is not so complete as one might suppose. Everyone knows what happens to Darwinian geneticists in Russia and non-Aryan atomic physicists under Nazism. One may even venture to hope that a world government may some day interfere with the bomb-making activities of *all* the atomic scientists! Nor is it quite clear how social scientists who make themselves indispensable to Fascists deserve to be called "competent." To put the matter the other way, would the theorists of scientific amorality call into question the competence of the authors of *The Races of Mankind*, who would most certainly not be immune from persecution[b] in the event of a rightest political upheaval in the United States? While they are about it, they might explain whether racists could be convinced of the "impersonal, neutral, general validity" of the knowledge systematized in *The Races of Mankind* "for whatever purposes man desires to use it," including their own.

Despite the difficulties which a professed ignorance of "what are right ideals" has caused economics, its practitioners are still convinced that this ignorance is the "last word" in their field. The tradition which they dignify by the name of "individualism" continues to hold their allegiance and doubters in the name of a "scientific morals" are would-be dictators assuming the mantle and omniscience of God.

This tradition is hard to break because it is one with the larger social tradition of Western civilization. It is an ingrained habit that "every man is entitled to his own opinion" and *De gustibus non disputandamus est.*

In the case of economics this social tradition has found expression in a theoretical apparatus which has itself become a tradition. If the tradition of individualism once constrained economists to adopt this particular apparatus, it is now true that its existence is a strong barrier in the way of modification of the basic philosophy. To give up the idea that no opinion is better than any other opinion would be easier than it is for economists if it did not also mean giving up the very warp and woof of economic analysis. The derivative technique now supports and maintains the original philosophy in its hour of trial, and it does so with all the vigor of an intellectual vested interest. When a discipline has come to such a point of affectionate inbreeding that one of its practitioners can say with scant opposition that "The subject matter of economics is nothing more nor less than its own technique" the persistence of its allied ideas can be imagined.

It is hard for lay readers to imagine the day-to-day atmosphere of the practice of economics, however. It is even hard for economists sometimes. And that is something which must be entered into if the achievement of the developing non-Newtonian economics is to be appreciated. Critics belaboring obvious philosophical weaknesses of traditional economic theory are likely to draw the impatient question: What is all the fuss about? The atmosphere of current economic theorizing, which is so exasperating to the non-Newtonians, can best be appreciated by listening in detail to an impassioned defender of the old order in the science. Only then can the complete failure of orthodox economics to deal with the crucial developments of the modern world be understood. The uncritical acceptance of the war- and revolution-producing institutions of capitalist society is systematically crystallized in a methodology of economics which, taking these institutions at face value and treating them in their own terms, precludes their objective examination by the very problems it attacks.[c]

Notes

1 Lundberg, George A., *Can Science Save Us?* (New York, 1947). Unless otherwise noted all quotations in this chapter are from this book, taken as typical of the views of Newtonian social scientists.

2 "Whatever happens to economics, economists are not likely to disappear. After 1933, some German economists chose to leave their native land rather than help to build up an authoritarian economy in Germany, but there were others who stayed behind. Doubtless many Americans who call themselves economists would fail to emigrate also in the event that the United States should become authoritarian. Neither would they commit hari-kari nor accept jobs as brush salesmen. They would board trains for Washington, as some of them did when the process began in a mild way in the 1930's, and as more have done since the war began. Economists know a good deal of the problem of apportioning scarce means of production over their manifold uses and even an authoritarian government cannot escape this problem." Edmund Whittaker in *The Journal of Economic History,* Vol. V No. 2 (November 1945) p. 250.

Chapter V:
The Individual Firm

The newtonian economics which has emerged from the individualist tradition of Western life is undoubtedly the most naïve of all the social sciences. This is saying a great deal. Neither sociology nor anthropology nor political science nor psychology was behind the door when the naïveté was passed out. But not even a sociologist could speak of the relationship between theory and empirical research in the following terms:

> There should be no doubt that empirical research on the economics of the single firm is badly needed, no less than in many other fields. The correctness, applicability, and relevance of economic theory constantly need testing through empirical research; such research may yield results of great significance.[1]

No scientist could make such a statement because the sentiments expressed are either by now taken for granted or else hopelessly half-hearted. To speak in the name of science of something called "theory" as anything else than the results of empirical research is to talk nonsense. To say that such research "may" yield results of great significance can mean one of two things. Either it means that some researches are fated to be fruitless, which is an empty commonplace. Or it means that some postulates of economic theory are so "fundamental" that they stand above the need for revision in the light of experience. The whole tone of the reference quoted is eloquent that this is the meaning intended and this tone is typical. It is not as a matter of principle but as a token of magnanimity that the testing of economic theory by empirical research is admitted graciously to be "badly needed." Real sciences make no such admissions. They don't have to.[2]

Nevertheless a case can be made out for the elevation of "theory" to the superior place it now occupies in the thinking of Newtonian economists. This elevation of "theory" is due in part to their fear of economics becoming a jumble of facts without pattern or meaning. It is unfortunate that this desire for unity and coherence has overlooked two important phenomena. The first is the undoubted unity and coherence of other sciences together with their undoubted empiricism. The factual manifold when investigated reveals its own "theories"; indeed these "theories" themselves are but big facts, or facts expressed in their widest bearings, and as such they are wholly empirical, and can be observed and recorded like any other phenomenon. Secondly, the desire to achieve unity and coherence through the establishment and refinement of "fundamental postulates" has not only failed to accomplish its end but has led to the crassest kind of "empiricism" in the worst sense. The important phenomena of economic life, in other words, are not only not related to one another but lost in a maze of detail by statistical studies proceeding along the lines marked out by "the nature and significance of economic science."

It is no accident therefore that each attempt to place economics on some other basis than dependence upon "fundamental postulates" is met by the patient reiteration of the postulates themselves. Thus Professor Arthur Leigh, a commentator on the latest controversy between "empiricists" and "pure theorists," begins with forbearance. "Whether or not such discussions prove or disprove anything, they are valuable insofar as they stimulate careful reexamination of the validity and the limitations of the concepts which theorists often take for granted." This is the case because "many analytical and expository devices which are of unquestioned value when they are properly used" can lead to error and over-simplification "when improperly applied."[3]

Professor Leigh now gets down to business. The criticisms at hand "sum up to the contention that businessmen do not behave in the manner called for by marginal analysis." But this contention is based on empirical research and it is well-known that such research has its difficulties. "The extreme caution with which the results of such studies must be interpreted" is also well-known.

> This does not mean, of course, that empirical verification of theoretical economics is useless, futile, or undesirable. Theories should by all means be constantly subjected to reexamination and evaluation…yet care must be

> taken to avoid wholesale rejection of a set of useful analytical tools merely because they do not offer a complete answer to some problem or set of problems.[4]

After disposing of this prejudice on the part of empiricists that analytical tools should offer answers to problems, Professor Leigh deals with some specific challenges to economic theory. His refutation of these challenges betrays no such prejudice on his own part.

The first challenge attended to is that which denies that businessmen are influenced in the scale of their operations by cost considerations. Questionnaires have discovered that these considerations are almost wholly absent in decisions to expand or contract output and that the relevant considerations are those connected with demand. Professor Leigh meets this discovery with the reassertion of the old idea. The businessman "must" consider costs. "If" he does so, therefore, "he is…using the techniques of marginal analysis. It hardly seems necessary to resort to complicated questionnaires or other elaborate empirical techniques to prove the validity of this common sense assertion. It seems to me to be no more than a matter of common experience."

The degree to which businessmen are influenced by cost considerations, Professor Leigh continues, "will vary almost without limit." "Some entrepreneurs may respond" in such-and-such fashion while "In other instances…one may expect *ceteris paribus*" other types of action. "Either of these courses of action is compatible with marginal analysis." In short, "Those who criticize marginal analysis on the grounds that it does not accurately or adequately describe reality appear not to have understood correctly the true role of this device."

That such an astonishing series of *non sequiturs* is the antithesis of scientific method is too obvious a point to repeat here. Moreover, nothing has been accomplished in the way of the growth of empiricism by reiteration of the truism that economics, to be scientific, must be empirical. It may be more fruitful therefore to recognize at the outset that even a set of fundamental postulates such as Professor Leigh upholds is in its way empirical; that is to say, it embodies the limited and uninformed observation which common sense affords of the economic system.

This is of course suggested by Professor Leigh's statement, "It seems to me to be no more than a matter of common experience." And common experience is not to be sneezed at. The overwhelming portion of the information which the overwhelming majority of mankind employs at its daily tasks is "a matter of common experience" infrequently reduced even to writing. Much of this as systematized in proverbs, maxims, and above all technical "know-how" is of the broadest scope and significance.

Yet the quality which the untutored wisdom of the race possesses is not felt in the presence of the principles of economic science. The common sense knowledge here systematized is extremely limited in scope and narrow in significance. Even if it were true it would be so dull, for to one regarding "theory" as the generalization of experience and observation it would appear that the experience of economists does not transcend that of the individual businessman, and of this businessman only in the narrowest range of activity.

"Marginal analysis of the single firm" is not all that economists know but in their eyes it is the best thing they know. It is what they have in mind when they speak of "theory."[a] The development of Newtonian economics consists of the ever more picayune description of what such-and-such imaginary businessmen "might" do "if" faced with such-and-such imaginary situations.

The explanation of the obsession with the single firm is historical. Not only does the whole individualist bias of economics lead it to focus attention on individual actors. As the most powerful and most envied actors of Western civilization businessmen "naturally" became the targets of economic investigation—or, rather, discussion. Economic writing itself was originally inseparable from the literature of "management" and "pure theory" still approaches the economic system from the "manager's" viewpoint. The first chapter of an early economic classic was titled, "The knowledge and qualities, which are required to be in a perfect merchant of forraign *(sic)* trade." The explicit practical purpose found in this treatise of Thomas Mun is absent in its modern counterpart, "Economic Principles and Practice," but the atmosphere and the reasoning is identical.

Most economists, in other words, today deem it the objective of "pure theorists" to catalog in minute detail the characters and qualities which are required to be in merchants. The fact that marginal analysis is often called "price analysis" should not obscure this fact. Economists are interested not in prices but in businessmen. To an outsider the obsession with cold and lifeless prices may seem to be inexplicable but he must remember that prices are only substitutes for the real love-objects, businessmen in all their power and glory, substitutes, moreover, which the power of transference endows with all the "affect" of the originals.

Economists when hard-pressed—usually by empiricists—implicitly admit this. "Only through detailed discussions of different situations and decisions," one writes, "actual as well as hypothetical, will an investigator succeed in bringing out the true patterns of conduct of the individual businessman." After referring to "the policies of my former business partners," he concludes that "the only possibility for a fruitful empirical inquiry…lies…in…analyzing a series of single business decisions through close personal contact with those responsible for those decisions."

Pure theorists, of course, are fruitful in the detailed discussion and analysis of the hypothetical business situations and decisions, They do not recommend to the empiricists any procedure which they themselves do not employ. The entrepreneur's every action so far as it has to do with his "single firm" is subjected to the most sympathetic discussion and mathematical presentation, the amount of time and patience involved and the problems of taste overcome bearing witness to the importance the subject is conceived to have.[5]

Such deferent and minuscule biography is worthy of a Boswell, and, indeed, present-day economists constitute a race of Boswells, There are but two differences. The subjects of economic biography ("price analysis") do not exist—the "different situations, actual as well as hypothetical" are overwhelmingly hypothetical. Secondly, the situations and decisions involved, stemming not from real business life but from imaginary situations in an imaginary narrow choice of alternatives, are nowhere so interesting as those we remember of Samuel Johnson, much less of J.P. Morgan or John D. Rockefeller. The economist's raptness before the image of the businessman does not permit him to conceive this image in larger terms than the corner grocer.

So business traffic is treated as a tasteless affair of routine calculation, modeled necessarily after the statutory dullness of the academic life. Activity which falls outside the scope of the academic understanding is dismissed as unreal. "In order to make headway," one economist tells us, "we shall disregard not only wars, revolutions, natural catastrophes, institutional changes, but also changes in commercial policy…changes in gold production…and so on…" It is admitted that "in some cases it is not easy to distinguish [these phenomena] from features of business behavior." But the reader is advised to hold fast to the "common sense" distinction—the university distinction—between business and non-business and remember that "every businessman knows quite well that he is doing one kind of thing when ordering a new machine and another kind of thing when lobbying for an increase of the import duty on his product."[6]

The dull and picayune character of the resulting analysis of the resulting businessman is not easily imagined without first-hand acquaintance. Typically "analysis of the individual firm" consists of discussions like the following from an article already quoted. First we are instructed in the procedure followed by a businessman in determining whether or not to allow the output of a firm to be increased. He must

(1) Determine by how much a given physical volume of production, X, is increased if the employment of a particular factor is increased slightly…and call the output increase the factor's 'marginal physical product,' MPP.
(2) Determine the selling price, P, at which MPP can be sold.
(3) Multiply MPP by P in order to obtain the 'value of the marginal physical product,' VMPP.
(4) Determine whether X, because of the sale of MPP, has to be sold at a price lower than it would sell if MPP were not sold; if so, multiply this price reduction, ΔP, by X, and obtain the 'revenue loss on sales because of price cut,' XΔP.

—Etc., etc., etc.

And this discussion of the matter is thought to be "pedagogically expedient!" It is no wonder so many promising students are lost to economics with the introductory course.

The economist is not bored, however. Indeed, his interest goes to the point of considering imaginary differences in the most trivial decisions of the humblest members of the business hierarchy.

> In planning the production of seasonally demanded goods—summer dresses, swimming suits, winter sport clothes, Christmas toys—price discounts for off-season sales will be counted into the average selling price. Hotels in resorts may charge preferential rates for guests arriving on Tuesdays and leaving on Thursdays; wholesale grocers will dispose of over-ripe fruit and vegetables at reduced prices… Etc., etc.

Not only the entrepreneur's actions but his slightest conjectures, stray thoughts, "anticipations" come in for loving dissection:

> An increase in wage rates may have very different effects depending on whether the employer (1)(a) has foreseen it, (b) is surprised by it; (2)(a) reacts quickly to it, (b) reacts slowly to it; (3)(a) expects it to be reversed soon, (b) expects it to be maintained, (c) expects it to be followed by further increases… Etc., etc.

What all of this comes down to is the proposition that businessmen try to maximize their profit, and what they allow in the way of production, employment, and the general welfare depends on the effects of these on their profit in whatever situation they find themselves in at the time. In a capitalist society five-year-olds know this, and "Monopoly" is a national pastime. Yet all citizens who have been so unfortunate as to suffer through college classes in "analysis" know that it is this point and this point only which is made *ad infinitum* and *ad absurdum*. Moreover, the different situations in which businessmen will do different things to maximize their profits can be (and are) expressed "diagrammatically." Statements about business decisions are translated into lines and curves. As the term wears on and the blackboard each day carries a heavier load of new curves representing the new imaginary situations economists are vying with each other to invent, the bored and bewildered student, with the morning headlines uneasily on his mind, wonders whether the profession has any other public purpose than the subsidization of the chalk and slate industries.

One of the subsidizers has indeed admitted as much—indirectly and inadvertently. In answer to one of the recurring pleas that economics forget its narrow inquiries into imaginary situations in favor of an investigation of the real world at large, Professor Fritz Machlup has drawn an analogy between "analysis of the single firm" and analysis of the driving of automobiles. Business and driving are alike in being complicated, he points out. Both businessmen and drivers consider a host of factors in arriving at their decisions. Take the problem of a driver overtaking and passing a truck.

> As an experienced driver [Professor Machlup reminds us] he somehow takes into account (a) the speed at which the truck is going, (b) the remaining distance between himself and the truck, (c) the speed at which he is proceeding, (d) the possible acceleration of his speed, (e) the distance between him and the car approaching from the opposite direction, (f) the speed at which that car is approaching; and probably also the condition of the road…the degree of visibility…the condition of the tires and brakes of his car, and—let us hope—his own condition (fresh or tired, sober or alcoholized)…

Now, says Professor Machlup, you wouldn't say that a science of truck-passing was complete unless it investigated all these factors, would you? "A 'theory of overtaking' would have to include all these elements (and perhaps others besides) and would have to state how changes in any of the factors were likely to affect the decisions or actions of the driver."

His inference is clear. Economic theory must do the same job on the man behind the wheel of the economic machine, the businessman. It must make a similar list of factors and "state how changes in any of the factors…affect the decisions or actions of the driver." And this, he points out, is exactly what marginal analysis has achieved.

One must agree with Professor Machlup in his analogy. The current obsession with the analysis of the individual firm is precisely comparable with a situation where a large group of men calling themselves social scientists discussed the passing of trucks for nine months at a stretch. Some people infatuated with their cars actually do this. But their hearers do not call them social scientists, they call them bores.

It may well be true, as Professor Machlup and the other economists state, that economists can translate the statements of businessmen into "jargon." It may well be time that economists can express the jargon "in a different version" and, finally, that "the same thing can also be expressed in a fourth, much more complicated, way." But what all this has to do with the explanation of economic reality one is hard put to say. Economics is only common sense made difficult. Its endless imaginary anecdotes have not even the breath of life which will sometimes redeem the "car bore" for an evening. To conclude, therefore, that "the marginal calculus is [the] dominating principle" in an adequate theory of economics is to conclude that making common sense difficult by the elaboration of endless imaginary detail is a fit occupation for a substantial proportion of the nation's teachers. This is the present conclusion of the profession but it is doubtful whether as a profession economists can long get away with it. The pressure of world events now excluded from economic theory by an outworn philosophy of scientific "amorality" and its handmaiden methodology of "marginal analysis" is fast becoming too great.

Notes

1 Fritz Machlup, "Marginal Analysis and Empirical Research," American Economic Review, Vol. XXXVI, No. 4, part 1 (September 1946) pp. 519-554. Unless otherwise noted all quotations in this chapter are from this article, taken as typical of the Newtonian position.

2 It is interesting to note that the presumed staunchest opponents of "Bourgeois Economics"—the Marxists—share this feeling of the superiority of "theory" over empirical research. See *e.g.* an exchange between Joseph Dorfman and Addison T. Cutler, in which Professor Dorfman, representing the non-Newtonian viewpoint concludes: "Yet so long as the aim of the economist remains an inquiry into the nature and development of economic life, any investigation which adds to our knowledge constitutes 'theory.' Otherwise we have at best amateurish philosophical discourses, not 'science.' In other words, economists might do well to spend less time futilely competing with the professional logicians and more time on the 'dirty,' prosaic, vulgar work of studying the unfolding business economy."— Joseph Dorfman, "On Institutional Economics," and Addison T. Cutler, "Professor Cutler Replies," *Science & Society*, Vol. 3, pp. 509-518.

3 Arthur H. Leigh, "Some Comments on the Role of Marginal Analysis in Economic Theory," to be published in the *Proceedings* of the 1947 conference of the Pacific Coast Economic Association.

4 *Ibid.*

5 "Then there were sighs, the deeper for suppression.
And stolen glances, sweeter for the theft.
And burning blushes, though for no transgression,"
Don Juan, I. 74.

6 Joseph Schumpeter, "The Analysis of Economic Change," in *Readings in Business Cycle Theory*, edited by a committee of the American Economic Association (Philadelphia, 1944) pp. 4-5.

Chapter VI:
The Fascination of Business

The dissatisfaction with current economic theory arises because it is pseudo-empirical. Newtonians attempt to disguise this quality of pseudo-empiricism by applying to economic discourse the proud adjectives of "theoretical" and "abstract." But these "abstract" theories upon examination turn out to be statements of fact about human nature, the market, the economic system at large—or, rather, statements which pretend to be facts. These are dignified as "theories" to prevent the revision which must inevitably be the lot of hypotheses treated openly as such. Economists try to protect their hypotheses in this fashion because they fear that the alternative is theoretical anarchy. A dependence upon "nothing but" empiricism will, it is feared, leave the economic world uninterpretable, without meaning or significance.

This fear is unfounded. An empiricism which treats theories as nothing but "big facts" or broad generalizations of a host of facts does not thereby eschew interpretation and leave the question of the pattern and significance of economic events unanswered. The empirical approach consciously recognizes what the pseudo-empirical approach recognizes unconsciously and in uncontrolled fashion: that facts are interpreted by—other facts. Nowhere does the new non-Newtonian economics fall back on a *tertium quid*, a set of "basic theoretical presuppositions" which are not working hypotheses derived from factual investigation.

The result is that the new economics is able not only to deal more effectually with traditional economic problems but also with problems which can not even be posed in the old terms. The point that a thoroughgoing empiricism makes with regard to the pseudo- or half-hearted empiricism of marginal analysis is well summed up by the popular song: *Anything you can do, I can do better; I can do anything better than you.*

Nevertheless the charges which many empiricists raise against marginal analysis miss the point. Granted that the mistakes of fact of marginalism are many and egregious. Granted that it is bad taste to sneer at empirical inquiries save in the name of more and better empirical inquiries. The fact remains that much of what the marginalists have to say is the truth, that it is just "common sense," as they frequently maintain. It follows, therefore, that the wholesale rejection of marginalism on grounds of occasional mistakes of fact is hasty and ill-advised.

The point which non-Newtonian economics makes about marginalism is not that it makes mistakes of fact but that it is a waste of time. The economics of the individual firm completely fails in two respects. In the first place, it does not take account of the most important phenomena shaping the modern world. In the second place, even the narrow range of phenomena marginalism does take account of are "analyzed" in such a way as to preclude the establishment of any knowledge about them. These two procedures are of course related, and it is their existence and their relationship, not failures on its own ground and in its own terms, which lead non-Newtonians to the wholesale rejection of marginalism.

The way in which marginal analysis takes account of the (relatively unimportant) facts it does take account of is this. It gives them names. The purpose of economic theory so conceived is to provide labels for (commonplace) economic situations.

Thus: "A firm may grant extraordinarily high wage rates as a part of its selling and advertising expense. A portion of current labor cost would then properly be allocated to the future rather than current output." The economic "theorist" here does not explain the firm's action. Instead he gives the action a name, assigns it to a pigeonhole. Where such procedure constitutes theory, progress in economics becomes conceived as the growth in number and complexity of pigeonholes, labels, names.

Moreover the substantial realities of economics become bound up with this labeling process. In the atmosphere of labelling the fixer of names becomes thought of as an active agent and the naming process as producing substantial material change. Thus an economist has recently written that by adopting a certain definition "Marshall succeeds in allocating land without having it enter into the marginal elements of a firm's costs." What is going on here? In the "allocation" process has Marshall been out on the prairie making land grants? Of course not. Does the "allocation" make any difference whatsoever to firms growing wheat or raising cattle? Of course not. What an economist means when he says that another economist has succeeded in allocating land in certain ways is that his fellow has succeeded in labeling economic situations with certain names. But it is very significant that the case is put in the way it is. It indicates very clearly the degree to which the name-calling itself has become the focus of attention and the criterion of scholarship in traditional economic theorizing.

Specifically the criterion of economic theorizing becomes logical consistency. The aim is to avoid self-contradiction in the elaboration of labels. But even Newtonian economists are beginning to recognize that under the stress of avoiding contradiction economics "acquires the character of a system of definitions and tautologies and loses much of its value as an expression of reality." It is no wonder, to take a specific example, that "Neither the existence of monopoly nor of monopsony makes invalid the proposition that the firm will equate marginal productivity and marginal cost of input." It is no wonder because "any degree of monopoly is fully reflected in marginal revenue productivity and any degree of monopsony is fully reflected in marginal factor cost."

The point here is not that Newtonian economics is tautological. That point has often been made. The point is that ironically this tautological procedure fails on its own terms. For after all even a system of definitions presumably has a purpose. The system of marginal analysis "intends to express the effects which certain changes in conditions may have upon the actions of the firm." It seeks answers to the following questions: "What kind of changes may cause the firm to raise prices? to increase output? to reduce employment? What conditions may influence the firm to continue with the same process, output, and employment in the face of actual or anticipated changes?" Truistic answers have traditionally been sought to these questions, and the more definitional the better. A good answer to the question, When will a firm raise its prices? is thought to be: When the income after the raise exceeds its costs by more than before the price raise; in other words, when it is profitable. All other "answers" provided by the Newtonians are of the same character. If it is profitable, a firm will reduce employment. If it is profitable, it will increase output. And so on.

This seems to indicate that the determining factor in the determination of price, output, and employment is profitability. This explanation has the advantage of common sense. But in actual fact this answer is superseded. We know that the profit motive is constant, yet prices, output, and employment vary incontinently. Specifically even an up-to-date common sense approach would note that prices, output, employment, and probability itself are determined by the buying power of the nation and the world at large, and this in turn is determined by whether or not the nation and the world are at war. War is certainly one of the conditions which "cause the firm to raise prices," increase output and employment. But the explanation of these changes is beyond the purview of economics. War is not a datum in marginal analysis. The work of economic analysis is to describe in business terms how the profit situation looks before and after the outbreak of war, and in these terms what it then proceeds to do about its prices. This comes down to the erection of tautologies. If net revenue after a price increase is greater than before, it will be profitable for the firm to increase its price. If it will be profitable for the firm to increase its price, it will be profitable. Therefore the profit motive determines price!

On the other hand, marginal analysis so far as it "intends to *express* the effects which certain changes in conditions may have upon the actions of the firm" achieves its task. We realize that this means exactly what it says; that marginal analysis is only "expressing" certain effects in certain language, that it is only giving names to certain situations. We also remember that the "changes in conditions" are defined in terms of the effects they call forth in a firm; *i.e.*, that marginal analysis tells us nothing about the roots of the condition. But by naming the condition with reference to the firm—in the businessman's own terms—the implication is that this reference is the important one. It is the increase in demand, to take an example, which causes prices to go up. But to put the matter this way of course obscures the fact that it is war which causes the increase in demand (and therefore in price). By focussing on the situation in terms of "increase in demand" the movements of a Hitler, say, are left completely out of the picture, yet in the most real sense these movements were the important determinants of price and demand in the late thirties. There is no way to get such incidents as the Reichstag fire into "graphical analysis"; there *is* a way to get them into non-Newtonian economic theory, and that is the difference between the two disciplines.

All of this comes down to saying that traditional economic theory even after limiting itself to the narrow scope of the individual firm fails to explain the individual firm. This failure of economic theory on its own terms is of course traceable to the fact that there is no "narrow scope" which can be taken, that there is no way to isolate even an individual firm from the rest of the world, and therefore no way to understand in other than tautological fashion the behavior of the firm without understanding the behavior of the world at large. To achieve even the limited task of explaining the behavior of individual firms economics must go behind and outside its cost, supply, and demand curves.

If this were always done as a matter of principle the endless elaboration of definitions which now usurps the rightful place of economic theory would disappear—as it indeed already has in part, to the extent that non-Newtonian economics has developed. The economist of the future will not stop with the definition, "marginal revenue is less than selling price if it takes a price cut to dispose of additional output," because this is *merely* a definition. A whole series of relationships in modern society can be delineated in place of this arid definition of one of the results of these relationships. The whole body of information on the distribution of income, the connection between this distribution and our inherited ideas about "capital," the reaction which the threat of price cuts calls forth in the way of business mergers and consolidations—all of these conditions which are unmentioned in economic theory are commonplaces outside the boundaries of theory in the books on specific problems. For this reason the problem material once unified will be much more entitled to the name of theory than the curves and diagrams of marginal analysis.

The failure of traditional theory to explain the significant phenomena of the modern economic world—even the conditions which cause individual firms to change their policies—is paralleled by a moral failure.

Both failures arise out of the uncritical acceptance of the businessman's viewpoints, interest, range of investigation, and even terminology.

Economists of course deny even the possibility of a moral failure on the part of the profession. They profess not to be concerned with moral questions. But let the reader judge for himself. Here we have an economist reporting some economic facts. "In considering any increase in employment, the employer will ask himself whether the additional services will pay for themselves; that is, what they will cost him and what they will be worth to him." If the economist in such a description does not question the criteria of "worth" and "cost," if he does not point out that failure to put unemployed workers to work, for instance, leads to grave social losses irrespective of this being less profitable to an individual employer, he is overlooking very important facts and is therefore theoretically inadequate. But is he not also guilty of accepting the employer's criteria of "worth" and "cost" and therefore morally hasty and ill-informed? In the new economics, investigators determine whether a given project will "pay for itself" by considering the total consequences to the community with and without the project, not by considering the balance sheet of a corporation.

The uncritical attitude displayed in the particular case considered pervades all economic discussion. Writers speak of firms "in equilibrium, with their profits maximized" without bothering to ask whether money profits are profits in any real sense, even to the extent of remembering the biblical injunction about gaining the whole world and losing one's soul. The very fact that the key economic concepts of profit, cost, value, utility, productivity, and so on are words of common speech used solely in their pecuniary bearing—*i.e.*, used solely as businessmen use them—indicates the degree to which business judgments are unquestioned.

This is true even for the concept of "equilibrium." The attainment of equilibrium to the economist is a matter of adjusting money costs and money profits. What might be a true cultural equilibrium? What sort of society with what sort of procedures for progressive change might be complimented as having attained equilibrium? These "philosophical" questions are not raised by economists, not because they have eschewed philosophizing, as they claim, but because they accept the philosophy of businessmen—*i.e.*, because they are uncritical of this philosophy. Cultural triumph to them is a situation in which firms maximize their profits, just as it is to businessmen striving to attain "equilibrium."

To sum up, the aim of the old economics is achieved when it establishes that "selling price must cover average cost inclusive of overhead and fair profit margins, if the business enterprise is to live and to prosper." Such a proposition because it is tautological fails to help us understand how the economic system works. This is a serious failure. But just as important is the fact that attention is focussed on the life and prosperity of business enterprises. The question raised ever more imperatively by modem economic development is, How is civilization to live and prosper?

This question brings inquiry to bear on the economic causes of the outstanding phenomena of the modern world: war and depression leading to to totalitarianism. Obsession with imaginary business enterprises forestalls all such inquiry and in addition leads the practitioners of economic science to fight a holy war in the name of "individualism" against planning to prevent war and depression. It is to this political crusade of Newtonian economics that we must now turn.

Chapter VII:
The Politics of Individualism

The confusion surrounding "wants" and "ends" and therefore the role of the social sciences is at the root of the preoccupation of economic theory with trivial business detail and its obliviousness to the important problems of the day. Only a theory which conceives individual "wants" and "ends" as supremely important and certain individuals as all-important could give the attention to the businessman which economics does. At the same time this misapprehension of the nature of "ends" is at the root of the economists' principal political attitude: fundamental opposition to economic planning.

This is the case for two reasons. In the first place, economists of the Newtonian persuasion can see no good in planning because their notion of wants and ends as undiscoverable by the methods of science and therefore bound to vary from individual to individual allows no agreement among individuals not imposed by dictatorship. Obviously the idea of planning presupposes the possibility of such agreement. In the second place, the misapprehension as to the "amorality" of science is also found among so-called economic planners almost without exception with the result that these "planners" have either implicitly or explicitly acknowledged that dictatorship would be necessary, for longer or shorter periods, in their planned societies. This admission has not unnaturally strengthened the prejudices of the economists.

The quarrels between the socialist proponents and the capitalist opponents of planning is, in other words, a family quarrel. Both are at one in their attitude toward science, and therefore their attitude toward "ends," and therefore their attitude toward democracy. The latter attitude is one of suspicion and fear. One of the most ardent opponents of planning, Professor Friedrich Hayek, has recently quoted with approval the statement that "The parliamentary system can be saved only by wise and deliberate restrictions of the functions of parliaments." Those social thinkers who are usually associated in the public mind with the idea of planning likewise talk of "saving the parliamentary system" by restrictions on representative government. The restrictions called for by both—the "rule of law" (*i.e.*, unamendable constitutions) and the "dictatorship of the proletariat" (*i.e.*, irresponsible oligarchies)—are urged as necessary evils, human nature being what it is. The "wants" and "ends" naturally sought by the average man are so selfish and short-sighted that they must be overridden in the interests of "order." Thus "individualism" like "collectivism" leads to measures of restraint against democracy.[1]

The particular role assumed by contemporary Newtonian economists in their opposition to planning is fittingly enough that played in similar circumstances two hundred and fifty years ago by John Locke.

We usually think of Locke in connection with his "Letter Concerning Toleration" and his doctrine of natural rights which so influenced believers in *laissez-faire* generations before Professor Hayek. But we should not forget that toleration of other men's opinions also warrants irresponsibility in one's own: it puts opinions above common inquiry. The right of free conscience is also the assumption of omniscience. We remember so well the arbitrary authority which Locke protested that we forget that he in effect urged that individuals be given arbitrary authority, that he spoke not only against interference with individual rights (chiefly property rights, "the possession of outward things, such as money, lands, houses, furniture, and the like," in his own words) by the crown or the church but also interference by the people at large. "…It is a mistake to think that the supreme or legislative power of any commonwealth can do what it will, and dispose of the estates of the subject arbitrarily, or take any part of them at pleasure." "Individualism," in other words, is not identical with democracy, as is sometimes thought. Locke's extreme "individualism" did not prevent his writing a feudal constitution for his friend Shaftesbury to impose in Carolina, any more than like individualist doctrine on the part of Professor Hayek and other contemporary economists prevents them from urging like measures of restraint against what Locke called "too much democracy."

With such an "individualism" it is easy to see why John Locke was famous in his own day as a Whig pamphleteer, spokesman for the rising business classes jealous of their property rights, and why Friedrich Hayek should appear to modern corporations as a godsend. In each case the upshot of individualism is the defense against public opinion of the individual's opinion—including his opinion, or most of all his opinion, about the operation of the industries under his ownership.

In both instances there is a pretense of revolt against authority. Locke was a revolutionary—to some extent. Opposing the divine right of kings only to uphold the divine right of property, ultimately his function was to stay the course of revolution before it had completed its logical course of unmasking all arbitrary rights. As his present-day successor, Professor Hayek likewise unmasks the dictatorial institutions of socialists and communists only to stop short of analysis of similar capitalist institutions.

Professor Hayek is worried, like John Locke before him, about the rights of "minorities." To protect them he wishes a return to "the rule of law." His modern hearers associate the protection of minorities with advanced and humane leanings and they believe in the law. It is a shame that Professor Hayek does not explicitly say, as Locke did, that it is the minority of property-holders that his "rule of law" is designed to protect (although it is doubtful if the rule of law would protect even property-holders, since it would not avoid depressions which create the social discontent now threatening property rights). In general the advocacy of minority rights is disingenuous. For the NKVD functions in behalf of a minority no less than does the Constitution.

Moreover the major premise of Professor Hayek's argument has still not been established. This premise states that minorities exist with respect to *every* social question, thereby making common social arrangements—except, we gather, "the rule of law"—impossible without coercion. "Agreement on a particular plan requires…much more than agreement on some ethical rule; it requires…the same kind of…values… in the decision of every individual…" But this "agreement between the individuals is neither necessary nor present." All actions of government, he insists, will be opposed by somebody. There is no possibility of agreement because of the nature of individuals, each with his autonomous, indefinable, private sense of right and wrong. Without agreement, therefore, planning can be accomplished only through serfdom.

This key theorem of Newtonian economics overlooks some important facts. For one thing, the citizens of Western society already do plan a great number of things. Our various governments, national and local, "functioning under the supervision and pressure of democracy," as Sir William Beveridge puts it, "dictate" to us along a number of lines and nobody considers himself a serf because of it. The reason, of course, is that "dictates" to drive on the right hand side of the road are quite different from the ukases of a Hitler or a Stalin. Working rules of this sort are obviously necessary in an industrial society. If "a small dissenting minority" of drivers who prefer to choose their side as the whim strikes them is thereby coerced, the overwhelming majority of citizens agree that this is in the interest of the greater good. But of course there is no such dissenting minority, and this is the issue that Professor Hayek completely avoids.

There is no dissenting minority in this case because the facts of life—not any overweening bureaucracy—compel agreement. This case is typical. Perhaps only in the fields of art and horse-racing is everybody still entitled to his own opinion! And even here the first thing a horse-player or an *aficionado* of Picasso or Henry Moore does when expounding his favorite is to quote an impressive series of facts. The same is time for devotees of the various economic systems and programs. Opinions on all matters are increasingly informed opinions and no citizen makes up his mind on political or economic questions without at least listening to the Chicago Round Table on the subject, any more than he goes to the pari-mutuel window without consulting his favorite filly's racing history in great detail.

The point is this. We now recognize that the long-cherished distinction between matters of fact and matters of opinion is a false one. There is only informed opinion and uninformed opinion. The most successful laws of physics are merely opinions—highly competent opinions, to be sure, but nevertheless subject to check in the light of further investigation. In just the same way all of our opinions on the economic system are based on a study of the facts, however partial and careless, and it is this gradual encroachment of scientific method into the making up of minds which formerly were made up by rumor and prejudice which Professor Hayek completely overlooks and completely fails to understand.

So far has this deterioration of the ancient injunctions against scientific inquiry proceeded that even Professor Hayek has to pay lip service to the new criteria. It is "the process of experimentation…to which we owe all progress in the social sphere as elsewhere…" What we must beware of is that "the possibility of dissent" by "people who are capable of independent thought" will be eliminated. "Only the imposition of an official doctrine which must be accepted and which nobody dares to question can stop intellectual progress."

On these grounds Professor Hayek opposes the experiment of planning, the experiment of rational direction of economic affairs which formerly were, as even he admits, "decided by chance, or at least by impersonal market forces." His reasoning sounds plausible. The danger is that by error in experiment "we may bring the process of experimentation itself to an end." "If the experiment of planning leads to the disappearance of free institutions, there will be no opportunity for the correction of that mistake."

Are there any grounds for this implication that planning leads to the disappearance of free institutions? Professor Hayek implies that there are. But for one student of the facts who has laid the disappearance of free institutions to the experiment of planning, as Professor Hayek, does, there are a hundred who have laid this disappearance to *refusal* to plan. This is true of all history. Freedom and change go together. It is no accident that the birth of free institutions themselves coincided with the demise of what was "the rule of law" for its day. Freedom means continual political, social end economic revolution just because it does mean continual planning and experiment, for the results of experiment are always negative as regards some economic procedures.

To Professor Hayek and most economists, however, a planned economy means a fixed economy. The reason for this is the persistence of many so-called planners in the ways of thinking which distinguish the professors Hayek. It is so-called planners who have been read by the economics profession. The result is the not unnatural aversion to planning to which allusion has already been made. As John Dewey says,

> What claims to be social planning is now found in Communist and Fascist countries. The results are such that in the minds of many persons the very idea of social planning and of violation of the integrity of the individual are becoming intimately bound together. But an immense difference divides the planned society from a continuously planning society.[2]

It is regrettable that Professor Hayek has identified the idea of planning with what he has found in the works of G.D.H. Cole and Josef Stalin instead of what he might have found in John Dewey, for instance. But he cannot be blamed for his opposition to the sort of planning advocated by the former. There, as Professor Dewey says, "the very idea of social planning and of the violation of the integrity of the individual" are as one.

If Professor Hayek's negative program is reasonable under the circumstances, however, his positive program is nothing short of fantastic. He cannot be blamed for his ignorance of planning but his idea of the "unplanned" or capitalist system is that of one whose business is to study the facts who nevertheless has been shielded completely from the facts. It is the idea of one acquainted with a theory of how a system *might* work instead of a description of how it in fact works—an "ether hypothesis," in other words.

This theory is that the price system is a mechanism for satisfying the wants of the populace through pooling the knowledge of the community. Here is the rabbit in the hat. Now we understand why planning not only is undesirable but *unnecessary*. In effect the *price system plans*, and its "automatic" planning is wiser than any other conceivable system could provide. In fact, Professor Hayek informs us, "The only known mechanism by which the knowledge of all can be utilized [is] the price mechanism."

Now this will come as a surprise to most people. Everybody is familiar with the theory that the price mechanism gathers up and expresses the knowledge of the community. This theory of "consumer sovereignty" tells us that consumers making their purchases thereby express their wishes and desires, and thereby direct the allocation of resources through the price system throughout the economic world. By "casting their dollar votes" consumers direct their representatives in business in precisely the same way in which their votes at the ballot box direct their representatives in government. But most citizens question the significance of this analogy on the obvious grounds that one man has one vote in political democracy whereas in our so-called "economic democracy" a few people stuff the ballot boxes while the overwhelming majority of the population is practically disenfranchised. Certainly no one except professional economists thinks of the price system as heading the list of democratic planning devices, if they place it on the list at all.

Professor Hayek deserves praise, therefore, for putting this key belief of economic science in such extreme and unpalatable form. For the idea that the price system is the only mechanism "by which the knowledge of all can be utilized"—pity our poor publishers and teachers, laboring under the delusion that books and schools are such mechanisms in their own small ways; pity poor Professor Hayek himself, whose spectacular failure in teaching the nations of the world the lessons of economic science is undoubtedly due to his use of books and pamphlets instead of "the only mechanism" for the diffusion of his knowledge—this idea *is* the key belief of economics. The single-minded concern of the science with the price system is explicable only on the grounds that this system is the only known mechanism not only for the achievement of knowledge but of democracy itself. If the price system is revised or discarded, it is felt, the inevitable result will be "a method by which the knowledge and the views of a view"—instead of all—"are consistently and exclusively utilized."

But this arrogance is also ignorance, as Professor Hayek himself seems to suspect. He recognizes that the price system cannot really do *everything*, as he sometimes implies. "…It is not intended to deny," even, "that some amount of central planning…will always be necessary." This is not denied because "there are unquestionably fields, like the fight against contagious diseases, where the price system is not applicable." In such fields the price system is not applicable "either because some services cannot be priced or because a clear object desired by an overwhelming majority can only be achieved if a small dissenting minority is coerced."

Now there can be no doubt that Professor Hayek knows what he is talking about at this point. There are unquestionably fields where "services cannot be priced"; there are unquestionably fields where minorities have to be "coerced" to achieve objects desired by the majority. The only question is, Are there any fields where services *can* be priced? No one will deny that the fight against contagious diseases can be left in the hands of private enterprise, to be pressed if it is profitable, only at great and probably irreparable loss to the community. But how does the fight against unemployment differ? Or the fight against malnutrition and bad housing? Where employment and food production and housing have been left to private enterprise in the past, to develop only and to the extent that development is profitable, there has been no guarantee that the employment is sufficient, or the food of the right sorts and quantities, or the houses adequate. Measures to change all this have been resisted in every case by "small dissenting minorities," in the name of the very "freedom" about which Professor Hayek waxes so eloquent. As H. Gordon Hayes has recently reminded us:

> Restrictions on child labor, requirements that labor be paid in money, limitations on monopoly, legislation to provide compensation for industrial accidents, provisions that laborers be permitted to bargain collectively without intimidation by employers, minimum-wage legislation, public-school laws and later compulsory school-attendance laws, the prohibition of the shipment of decayed meat as food in interstate commerce—these and practically all other attempts to establish controls have been resisted in the name of the freedom of Americans.[3]

But what does all this prove? Certainly it proves that none of our economic services can be "priced," in the sense that we can count on their being delivered without the use of organized intelligence or planning. This may or may not mean that the price system will go by the board. But it certainly means that so-called "free" and "automatic" prices should be replaced by "administered" prices—that the allocation of resources by the rich should be replaced with allocation by the public. Actually of course most prices are administered already, but by private instead of public "central planners."

The results of the free price system—the privately administered price system—are even more far-reaching than depression, unemployment, "one-third of a nation ill-housed, ill-clothed, and ill-fed." Totalitarianism is one of these results. The loss of political democracy in many countries where economic planning was left to "impersonal market forces" is truly a service of the price system which "cannot be priced." Depressions breed dictatorships. But according to the opponents of planning the fact that the free market disappeared in Germany and Russia along with the basic freedoms of the individual is proof positive that the two kinds of freedom thrive together! They like to ask the question: "What are the relations between the decline of the free market in economics and the growth of arbitrary power in politics?" This question has an answer, and it is completely contrary to the idea that the free market and the freedom of the individual are cause and effect. The relationship between the two is simple but of another kind: the free market as we have known it does not prevent economic crisis, and economic crisis is the forcing ground for political counter-revolution which destroys not only the free market but the freedom of the individual. "Mass unemployment," Professor Hayes says, "is the greatest single threat…to democratic processes. The hopelessness engendered as men search fruitlessly for jobs, and the bitterness that develops against minority groups that have jobs, make the way easy for the demagogue. It is upon such meat that would-be Caesars feed."[4]

Professor Hayek and the other economists opposed to planning have tried to argue at this point by shibboleth. Identifying our whole present economic order as that of the "free market" or of "competition" they have proceeded to label all who relate the present economic order to recent political developments as opponents of freedom and competition. On this point one must be very clear. The economic institutions which doom modern society to depression, depression which always bears the seeds of totalitarianism, have nothing to do with competition. Far from destroying competition, planning would foster it, as many writers have pointed out. After all, the present "trustified" state of the economy is the reaction of businessmen to the free market and competition; in some way the free market and competition have led to their own disappearance, to their own "negation," as the Marxists love to say. Presumably businessmen would not have the incentive to buy up competitors which they now have if there were planning to provide markets for all, and new businessmen could enter industry with greater ease.

Professor Hayek, like Professor Dewey, links the political conditions of freedom with the problem of knowledge. Free inquiry is essential to the maintenance of free institutions. "So long as dissent is not actually suppressed, there will always be some who will query the ideas ruling their contemporaries and put new ideas to the test of argument and propaganda." It is to this "process of experimentation" that "we owe all progress in the social sphere as elsewhere." Nevertheless the view of experiment of the pragmatist and the Lockean is quite different There is a danger, Professor Hayek warns, "that by error we may bring the process of experimentation itself to an end," and for this reason we must forego the experiment of planning.

Despite his lip service to experimentation, in other words Professor Hayek is no experimenter. On the contrary he is very fearful of new ways of thinking and doing. He rather believes that "a somewhat too rapid emancipation from traditional moral and religious belief may…be partly responsible for the mental instability of our generation." He identifies, in fact, "free institutions" with "the existence of firm tradition."

And the continuance of a firm tradition, unaltering and unalterable no matter, one gathers, what new facts are turned up, is what Professor Hayek and other Newtonian economists are arguing for now. Democratic government fails, they attempt to persuade us, when it departs from the accepted creed of *laissez-faire*. "Democratic government worked successfully…as long as the functions of the state were limited…" It may be that they really believe that this limitation was "to fields where real agreement among a majority could be achieved." John Locke really believed this and the fields which he delineated for government action were those delineated by Professor Hayek: the law courts and the army, functioning hand in hand for the preservation of property rights handed down from the time of William the Conqueror and redistributed by the Puritan Revolution. Democracy, in Professor Hayek's as in John Locke's usage, is identical with capitalism. It does not signify a method of procedure but instead is identified with "the imposition of an official doctrine which must be accepted and which nobody dares to question"—although Professor Hayek is opposed to all other official doctrines, to all other "firmly established ritual." Since democracy is defined as a fixed system, the fixed system of capitalism, it is no wonder that Professor Hayek can assure us that "only capitalism makes democracy possible. And if a democratic people comes under the sway of an anti-capitalistic creed, this means that democracy will inevitably destroy itself."

Most students of society see signs that the American people *are* coming "under the sway of an anti-capitalistic creed," and for good reason. Capitalism as we know it does not work as economic science has assured us it would. If a change of mind takes place it will mean the disappearance of capitalism. It will also at the same time (because the three things are aspects of the same thing) mean the disappearance of "individualism" and the theory which restricts science to a "proper place." But the disappearance of this feudal triumvirate will mean no loss either to the cause of economic freedom or to the dignity of the individual or to morals.

On the contrary, we can already see the outlines of the "multiplier effect" which liberation in each field will have in the other fields, the removal of the injunction which prevents scientific study of "ends" will reveal that so-called individual "wants" are not individual at all, but social customs which although habit-forming can be changed in the light of investigation. And the dethronement of the particular set of economic customs of which we are now possessed will make possible the maintenance of freedom, a freedom in which, unmenaced by depression and war, both science and the individual can grow and flourish as never before.

Notes

1 The treatment in this chapter of the political thinking which flows from the philosophy of scientific amorality and the methodology of marginal analysis is based on Friedrich A. von Hayek, *Freedom and the Economic System* (Chicago, 1939). This brief but beautifully conceived pamphlet is by far the most cogent expression of the Newtonian point of view toward planning, a point of view which has been so often set forth in detail by almost every academic economist of repute that further citation would be unnecessary and discriminatory.

2 John Dewey, *Intelligence in the Modem World* (New York, 1939) p. 431.

3 H. Gordon Hayes, *Spending, Saving and Employment* (New York, 1947) p. 184.

4 *Ibid.*

Chapter VIII:
The Non-Newtonian Approach

To conceive contemporary economic thinking as entirely dominated by the unholy triumvirate of individualist epistemology, business method, and capitalist politics is to paint the picture too black. Certainly the picture *is* black. But already there exist alternative conceptions of the role of science and the role of economics, both as an investigatory discipline and as an instrument of public policy. Each day these conceptions grow in clarity.

Alternative to the idea that science is restricted to the evaluation of means is the idea that science is equally competent in the evaluation of wants and ends. Alternative to the idea that economic theory should be concerned almost exclusively with the detailed and intricate analysis of hypothetical businessmen in hypothetical situations is the idea that economic theory should be concerned with the realities of modern life: depression, war, and revolution. Alternative to the idea that in its public role economic science is antithetical to planning is the idea that it is identical with planning.

None of these alternative ideas, which constitute a developing non-Newtonian economics, is new. Neither is the realization that all three ideas are connected and interdependent, just as are the three they are replacing. In formulating them even the heretical economists of the nineteenth century used as a guiding principle the advice that Einstein was to give students many years later. They did not hesitate to call common sense nonsense, and vice versa.

Upon investigating the growth of non-Newtonian ideas in economics one comes immediately upon the figure of John Ruskin. His ideas on "the nature and significance of economic science" are at the opposite pole from those of the run of present-day economists, just as they were from those of his nineteenth-century contemporaries.[a] Ruskin's work in economics fell into two parts. First was that concerned with clearing the philosophic ground. Second was the description of economic phenomena in more adequate terms than prevailing economic theory. The two tasks of course were intimately connected. But to understand the descriptive theory which now stands as the product of non-Newtonian economics it is first of all necessary to appreciate the philosophical difference this change makes.[1]

At the outset Ruskin completely rejects the notion that science is incompetent to determine values and ends, the notion that economics must accept "wants" as "given." Newtonian economics does not question values. Ruskin's conception of economics was one in which the work of the analyst is to question *all* values. "The essential work of a political economist is to determine what are in reality useful or life-giving things." The traditional economist takes wants as given and dignifies commodities as "goods"; the non-Newtonian economist, according to this definition, would accept no want, would give the status of "goods" to no commodities which could not prove themselves "in reality useful or life-giving."

The production and distribution of goods should be analyzed according to Ruskin in the same normative (critical) fashion. At present the point of view of economics is that, of course, of the businessman; "If one man produces twice as much as another he is worth twice as much to the employer." What a man produces is therefore measured in dollar terms, in terms of what his "addition to output sells for"; if this is more that "the addition to [the firm's] costs" the man will be hired. From the economists' point of view, in other words, if one man is worth twice as much to the employer as another, he produces twice as much. This is the viewpoint of the employer, and it is the viewpoint convenient to economists. This is what is meant by the statement of Professors J. R. Hicks and A.G. Hart that "economics deals with those aspects [of the world] which are conveniently studied by economists. …Economics is the science which deals with business affairs."[2]

Nevertheless this attitude while convenient is uncritical and that is why Ruskin, ever critical, thought it should be revised. The determination of "what degrees and kinds of labor" are actually necessary to attain and distribute actually useful and life-giving things goes beyond the employer's judgment of the "worth" of a laborer in pecuniary terms. Poets are not worth much to businessmen as poets, and that is why so many poets earn their livings as bus-boys, and write—or try to write—after hours. Recognizing the cultural cost of this procedure as Ruskin would have us would involve in the work of economic analysis a differential (normative) judgment of the various employments of labor instead of the acceptance of these as given, like "wants."

This procedure of Ruskin's is so different from that of what Ruskin called "Mercantile Science" that to this day he has never been recognized as an economist. The reason is clear. The case of labor is the case of all things economics studies. All the stock terms of economics—"labor," "value," "capital," "profits," "consumption"—instead of receiving no scrutiny, instead of being apprehended as the community, especially the business community apprehended them, received at Ruskin's hands the most thorough scrutiny. He did not accept the worth of any commodity or procedure on the businessman's say-so, or the consumer's, or even that of the community as a whole.

For this reason Ruskin accused the science of Commercial Wealth of illegitimately assuming the name and function of Political Economy. For it is certainly the critical scrutiny of the accepted values of our social system which is the work of the social sciences. If this is normative, and therefore unscientific, what is the alternative? It is of course the uncritical description of things as they are. The dictum that "wants are primary data" amounts to the legitimatization and certification of the whole network of institutions and values which constitutes capitalism. Economists' use of terms, in other words, in the sense in which they are used in the business world under the guise of an "amoral" approach to economic problems amounts to adoption of an uncritical approach. When, for example, economists speak of "capital formation" they in effect accept the myth that money funds are embodied in the construction of machines, that the capitalist is through investment creating the machines. This sort of procedure is appropriate in retainers but obnoxious in objective students.[3]

Ruskin urges this point when he insists that "sentiment" does in fact dominate the Newtonian "science" of political economy, but that it is the wrong sentiment. The insistence on the part of economists that economics should be purely descriptive means, he says, that the activities and values which the economist describes are not probed or scrutinized but accepted at face value. This is of course convenient. What does an investment banker do? The easiest way to answer is to say that he "buys" "stocks" and "bonds." It is more important however to say that he allows some industrial ventures to proceed and vetoes others, as Queen Elizabeth did when promoters "prayed" her assent to their schemes. Where the discussion runs in terms of "banks," "stocks" and "sales" the resulting so-called "objective description," far from being objective, is sentimental. Its sentiments are those of the community, especially those of the business community, instead of those sentiments appropriate to the larger view which concern for usefulness and life-giving affords. Economic behavior cannot be described in its own terms.[4]

But this is just what traditional economics does, and this is what aroused Ruskin's ire. In particular he was appalled by the definition of wealth which economics accepts from common sense: property. The result is that, in the words of one of Ruskin's commentators, "the liberation of slaves causes a reduction in national wealth, the inclosure of common lands an increase." Such a definition which limits the very highly normative term "wealth" to income-yielding property involves the loss of all sense of reality. As everyone knows, housewives are classed as "not productive of wealth," not "gainfully employed" because they receive no wages, and government is thought of as "non-productive." The natural resources of a country and the skills of its population are likewise artificially removed from the sum of wealth.

Alternative to this notion that wealth is property is a notion which will seem strange to most economists. Wealth according to Ruskin is simply the totality of culture. Acceptance of this definition is paramount in the non-Newtonian system since it diverts attention from a single-minded preoccupation with prices and businessmen.

Ruskin's refusal to make an artificial separation between wealth and culture is at the root of his insistence that there is no inherent distinction between labor and leisure, or between work and pleasure. It is true that in capitalist society the eternal danger of flooding the market makes work a curse. This is the case both because the employer is always forced to reduce labor costs as much as possible and because the worker in his fear of "working himself out of a job" is unable to enjoy himself on the job. But this situation according to Ruskin is artificial. In a society in which consumption could always remove from the market the goods which could be produced, there is no reason to suppose that work would be regarded as it now is. The "high costs" of mechanical improvements are so only with relation to scant markets, for both the worker afraid of "technological" unemployment and the industrialist wary of "excess" capacity. Intrinsically, machines are fun to build and operate; the joy of creation is not limited to the fine arts. Work is not an evil to be shunned but a good to be desired; wages are not a payment for sacrifices undergone but part of the arrangements by which the work is carried on, by which the joys of creation are realized and grow.

All the differences between Ruskin's work, considered as exemplary of the non-Newtonian economics, and the science of commercial wealth which it is replacing, are summed up in their alternative treatments of "value." When economists say value, they mean price. The value of any stock of goods to the economist as to the businessman is the price which it will fetch in money. The value of labor is the price fetched by the goods produced or services rendered by the labor. Alternative courses of action are more or less valuable as the difference between receipts and expenditures is more or less. These are the traditional ideas, but more and more this approach is questioned. If realities were always considered, Professor J.R. Huber asks, "Would one feel any confidence in the geometry of marginalism...to tell us what is the national economic benefit?"[5]

It is the mood of this question which Ruskin would generalize. As his biographer says, all of Ruskin is summed up by the "eloquent but strictly scientific" formula: "There is no wealth but life." "To be valuable is to avail toward life."

Formally even Ruskin's most entrenched opponents agree. They would be the last to deny, they say, that "that country is the richest which nourishes the greatest number of noble and happy human beings." All they would like to point out is that the way to this recognized "wealth of nations" is through the pursuit of profit. Of course no economists explicitly repeat the idea of the Invisible Hand. There are no old-timers left who are eloquent about "economic harmonies," who openly indicate that each person seeking to increase his bank account mysteriously accomplishes the communal welfare. But in effect and implicitly this is what all Newtonian economists, even of the most "modern" persuasion, have to tell us.

They do it in this way. Their investigation of "real" economic wealth, value and welfare is always at the second remove. They are really interested in utility; but they talk about prices. Productivity is what actually counts; but analysis is of income payments. And so on. Why, John Ruskin asks in effect, why go to so much trouble? Why not study "noble and happy human beings" at first hand, and with them real production and consumption? The answer is: Economics cannot do this because its central philosophical tenet prevents. There is no such thing as true utility or productivity or nobility or happiness. These vary from individual to individual. It is only in his purchases that the consumer reveals his ideas of utility—which the economist must accept or be guilty of imposing his own morality on the consumer. In the same way incomes reveal productivity and habits of life personal ideas of happiness—again which the economist may reject only at the risk of bigotry. Therefore there is nothing for economics to study save prices, and economic theory is a theory of price; as such it works out to be a theory of real life. At least that is the idea.

This idea according to Ruskin is completely erroneous. The way to study economic life is to study it. Moreover the standards of investigation must be normative, critical with no value, concept, or institution accepted on its face or in its own terms.

It completely misses the point to say that by this procedure Ruskin substitutes for the "objective commercial standard of money" a "subjective human standard." The whole point of Ruskin's critique of the orthodox economics is that the money or price standard is *not* objective. Moreover the tendency to distinguish between alternative systems of value in terms of whether they are "subjective" or "objective" fills the path of economic theory with difficulties. On the one hand this idea leads to a paralyzing relativism which has to take institutions for granted—since any criticism of them would reflect the subjective notions of the student. On the other hand the desire to find something in the morass of relativism to cling to leads to the deification of certain institutionalized patterns of valuation as "objective," and therefore after all superior to other patterns.

This distinction between subjectivity and objectivity involves the same confusion as that between means and ends, for both express the same basic idea of individualism with its simultaneous specious toleration and actual dogmatism and arrogance. In practice the individualist holds his own standard of value objective and dismisses others as subjective. But all standards are objective and all are subjective, in the sense that all can be investigated even though all reflect the limited knowledge of the groups out of which they grow.

Ruskin proposes as an alternative to the present money standard a "human" standard, it is true, but this is of course really *another* human standard, for the money standard likewise is an idea of certain fallible societies. Both standards, in other words, are subjective. At the same time both offer opportunities for precise investigation; vitamins are just as measurable as prices.

> Intrinsic value (writes Patrick Geddes) is the absolute power of anything to support life. A sheaf of wheat of given quantity and weight has in it a measurable power of sustaining the substance of the body; a cubic foot of pure air, a fixed power of sustaining its warmth; and a cluster of flowers of given beauty, a fixed power of enlivening or animating the senses and heart.[6]

A biologist is speaking here, and he goes on to say that "physical and physiological properties, or 'values'" can be assigned to all goods; the identification of "values" and "properties" is the work of the physical scientist and the economist. Both measure objective quantities.

The distinction, therefore, between the "vital" standard and the money standard is according to Ruskin not that one is subjective and the other objective but that one is good and adequate, tending to take account of the facts, while the other is haphazard and uncritical, tending to ignore the facts. One is not factual because it deals with the facts of price any more than the other is merely opinion because it deals with opinions. The way in which the two disciplines deal with their data is the crucial thing. Traditional economic theory fails because it takes price data as given, that is to say as objective, when they are in fact reflections of extremely fallible human judgments. The vital standard deals with prices as with other opinions in a questioning, critical manner, accepting no judgments as objective on their face. For there are no "facts," only good opinions and bad opinions, reasoned and unreasoned judgments. The desire to attain something more than "mere subjectivity" is understandable. It is also legitimate if it is understood clearly that what we desire beyond "mere subjectivity" is nothing more than the best judgments we can make. But in the form it has hitherto taken criticism of the vital standard in terns of subjectivity and objectivity completely misses the point.

So does criticism which accuses Ruskin of dogmatism. It is true that to minds bred in the dogmas of individualism Ruskin's formulations appear by definition dogmatic. "The true value of a thing," he writes, "is neither the price paid for it nor the amount of present satisfaction it yields to the consumer, but the intrinsic service it is capable of yielding by its right use." Individualist economists of course argue that there is no such thing as "intrinsic" service—there is only consumers' satisfactions, which vary from one to another, and which are revealed through the prices paid for things. But the facts of error, education, and change are commonplace. So commonplace, in fact, that Raskin's maxim makes sense even to economists who have thought it wants "primary data," especially those disturbed by the endorsement of the price system which follows from this kind of thinking. Nor will their desertion of the subjective valuations of consumers cause them to embrace "eternal and immutable principles of health and disease, justice and injustice." Obviously our ideas of health and disease, far from being eternal and immutable, are continually revised in the light of advancing knowledge. And so are our ideas of justice and injustice.

The difficulty here is with the old ways of thinking. When the theory of individualism was formulated the principal alternative to individual judgment was eternal and immutable tradition as laid down by Church and King. Whether this alternative was the only one even at that time is doubtful. The star of scientific investigation was already rising to challenge both individual and traditional judgments. But the claims of infant science in the moral realm were easy to overlook in favor of the private conscience, since indeed the deliverances of what the Reformation called "conscience" corresponded in many cases to the working principles of men of science.

Whatever the case three centuries ago, it is certainly true today that "eternal and immutable tradition" is not the only alternative to individual whim and prejudice. Parallel to the growth of individualism, perhaps even its cause, has been the growth of a method of determining values which is based neither upon ''present subjective valuation" nor "eternal and immutable principles." This alternative Ruskin would incorporate as the very procedure of economic science. Objective scientific inquiry can determine not only how consumers and businessmen value things but what values things are capable of yielding by right use. Uses and capabilities are neither eternal or immutable but change with knowledge. They are developmental and consequently so are values. Institutions and individuals, above all businessmen, in their dealings with health and justice, production and consumption, distribution and price must be held to account with all that is known about the capabilities of human culture. Each business decision must be regarded not in the light of its effect on the profit of the firm but in the light of its effect on the total of civilization.

It is right here that Ruskin definitely takes his stand on the side of normative economics. Any economics which overlooks the developmental character of values and principles gives false descriptions of economic phenomena. To say, for instance, that in post-war America the construction of night clubs and race tracks was evidently valued more than the construction of veterans' housing since night clubs and race track owners after all outbid veterans for scarce materials without going on to say how arbitrary and destructive this process was to the community makes the "objective" economist not only immoral but a very poor descriptive scientist as well. To know what a phenomenon is we must know what might have been. To know a good we must know what it is capable of, in the same sense that a botanist knows a seed or a chemist an element when he knows in great detail what the element will do in various uses. Imagine an investigator in a research laboratory reporting to his director: "Here is a species of mold, shaped like a pencil and the color of cardboard, but I should be unscientific if I were to suggest what it is capable of yielding by its right use." No one would suggest that the scientist has done his job by "merely describing" penicillin in this fashion. Yet economists are wont to hold up a similar procedure as the essence of science. Chemists and botanists would insist that the mold itself is unknown until investigators can detail its capabilities and potentialities, its effect on other growths, its reaction to body tissues, and so on. In this spirit Ruskin insists, in John Hobson's words, that "'what ought to be' is a practical standard of conduct for...political economy; the 'ought' which lies outside the narrow utilitarianism of the mercantile economist falls within the range of the broader human economics, and becomes the most important 'is.'"[7]

It is this task of describing the potentialities and capabilities of our economic system—a task which is in reality the adequate description of the system as it is, if description means something more than the cataloging of superficial details—to which the non-Newtonian economists have been bending themselves for some time. In this task they have been greatly aided by far-seeing social critics like John Ruskin who have pointed out that the obsession of economics with businessmen and prices conceals the significant phenomena of economic life. This point has been made so well by John Hobson in his biography of Ruskin that his words deserve to be quoted at some length.

> The work of Mr. Ruskin (Hobson writes)...consists in this, that he has "humanized" Political Economy. Every fact and every process is stripped of its...monetary garb" and shown it its naked truth as "vitality." The essence of wealth "consists neither in bank balances nor in the lands, houses, or goods they represent," but in "authority over men." Here is "sentimentalism" with a vengeance! Hood in his "Song of a Shirt" had declared, "It isn't linen you're wearing, it's human creatures' lives." Mr. Ruskin...proves that every "demand for commodities" is a demand for life or death, according as the work embodied in these commodities is good or evil in its nature and in the conditions under which it is performed.[8]

Notes

1 Ruskin's deliverances on economic topics are scattered through many volumes, of which *Unto This Last* (New York, 1907) is a good introduction to his work. Even better is John Hobson's well-organized and extensively-quoting biography *John Ruskin: Social Reformer* (London, 1898) on which much of the present chapter is based.

2 J.R. Hicks and A.G. Hart, *The Social Framework of the American Economy* (New York, 1945) p. 1-2.

3 Economists are supposed to "ignore the ends of life, refusing to ask what people want or need, and considering only the economic mechanisms for promoting their attainment of whatever ends they do pursue." This Newtonian approach "assumes that the instruments—economic mechanisms—are themselves neutral; and the trouble is that they are not. The economist's chief mechanism—the market—cultivates certain kinds of needs and neglects others. It is biased; and if the economist limits himself as suggested, he is accepting the bias of his mechanism."—J.M. Clark, *Alternative to Serfdom*, p. 10.

4 In view of the present work's obvious affinity with Veblen's critique of Newtonian economics and in view of a statement of Veblen's ostensibly to the opposite effect ("An evolutionary economics must be...a theory of a cumulative sequence of economic institutions stated in terms of the process itself"—*The Place of Science in Modem Civilization*, p. 77) a word of explanation is necessary. What Veblen was opposing was metaphorical treatment of economic issues in terminology drawn from physics. The "matter-of-fact," "purely descriptive" treatment of these issues is not the only alternative to this metaphorical approach is in fact "pure description" is itself a congeries of figures of speech. All the key terms of business and Newtonian economics—"manufacturer," "producer," "risk," etc.—are metaphors.

5 J.R. Huber, "Some Comments on Monopoly Theory in International Trade," to be published in the *Proceedings* of the 21st Annual Conference of the Pacific Coast Economic Association.

6 Patrick Geddes, *John Ruskin*, quoted by Hobson, *op. cit.*, p. 89.

7 *Ibid.*, p. 79

8 *Ibid.*, p. 83. *Cf.* J.M. Clark, *Alternative to Serfdom*, p. 50: "The most important product of industry is what it does to the lives of the people who work in it; and for its own safety it needs to contribute to making well-balanced individuals whose social faculties are neither atrophied or perverted."

Chapter IX:

The Theory of Business Enterprise and Economic Inequality

The new economics which has evolved to fill the need for a coherent explanation of the dominant realities of our time has taken shape at many hands. Scores of economists before and since Ruskin's time have made contributions to this "theoretical formulation of the economic life-process," as Veblen called it. This is true even of those most preoccupied with the definitional subtleties of marginal analysis and the confused harangues of *laissez-faire* politics.

The resulting non-Newtonian theory, when it is brought together from the many and diverse sources where it now alone exists, is as æsthetically pleasing and as intellectually stimulating as the system of "curves" which now holds the center of the theoretical stage; indeed, far more so. Economists who have feared supplanting theory with mere unrelated description have been so wrong as to have held up an inadequate and patchy description as "theory" while a set of interrelated propositions which catch up the whole of western civilization have been allowed to rest undisturbed in the separate places they have fallen

The first task to which non-Newtonian economics has addressed itself has been the theoretical formulation of the institution of private property.[a] The difference between the description of this system of "business enterprise" and "capitalism" in the hands of orthodox economics and the new economics is sharp and uncompromising.

In the first place, the new economics differs from the old in that it investigates the problem; it is interested in what capitalism is instead of just assuming it, taking it for granted as the order of nature.

This investigation is sometimes linked with Karl Marx and his followers. As Werner Sombart tells us in his article on "Capitalism" in the *Encyclopædia of the Social Sciences*, "The concept of capitalism and even more clearly the term itself may be traced primarily in the writings of socialist theoreticians."[1] The concept and the term have only recently appeared in the main stream of economic thought. "Despite the fact that capitalism tends to become the sole subject matter of economics," Professor Sombart wrote, "neither the term nor the concept has as yet been universally recognized by representatives of academic economics." Economists have typically "rejected entirely the concept of capitalism. In many cases the rejection was merely implicit; capitalism was not discussed at all…" Among the younger economists. Professor Sombart said, "the uncertainty as to its exact meaning is generally expressed by quotation marks about the word."[2]

There has been some change since Sombart wrote this article but not much, so far as academic economics is concerned. Introductory economics texts, for instance, frequently jump right into the analysis of the "sole subject matter" without mentioning capitalism or the institution of private property at all. Ours is the "modem exchange economy," one text tells us, and begins its description of this economy as follows. "Man lives by cooperating with his fellowmen… In our modern exchange economy this cooperation is indescribably broad and complex…" etc., etc.[3] Another introduces us to the "modern exchange economy" by tracing the origin of a commonplace article "and the means by which it comes into its owner's possession." In some sense this serves "as an admirable example of the complex workings of modern economic activity," but the key term "possession," which is highly institutional in nature, is nowhere explained.[4] The same is true for those texts which speak of economics as concerned with "the wealth-getting and wealth-using activities of man." The very use of the term "wealth" implies the "peculiar institutions" of the West, but the description of these remains implicit as in Sombart's day.[5]

Other treatises go beyond this sort of treatment, explicitly attacking the problems of private property, business enterprise, and capitalism. The mode of approach is not, however, empirical or historical, nor does it seem to one who lives with capitalism to quite get at the nature of the system, nor to be quite "realistic," to say the most important things which might be said. The following is a sample picked at random:

> In the free enterprise system [Professor Edmund Whittaker writes] the agents or factors of production are privately owned. …Individuals select freely the

> occupations in which their labor, capital, and natural resources are to be used. Production is directed by whoever has the capacity and desire to do so. The organizers of production, or enterprisers, select the products which they intend to make, with an eye to the wants of consumers…etc., etc.[6]

Another example:

> …In a capitalist society…every individual is permitted to choose his own work, to sell as much of his goods or services as he can, for any price he thinks he can get from the public…etc., etc.[7]

Finally, as a third type of treatment, there are those studies which explicitly tackle the problem of what capitalism is and do this in an empirical or quasi-empirical way. Thus Professor A.C. Pigou speaks of capitalism as a system "in which the material instruments of production are owned or hired by private persons and are operated at their orders with a view to selling at a profit the goods or services that they help to produce."[8] The reference to "ownership" by "private persons" who give "orders" to other people with a view to "profit"—all this makes somewhat better sense, is somewhat more obvious than the freedom of all persons of capacity and desire to do as they please. Another follower of this quasi-empirical treatment who treats these points in somewhat greater detail is Professor Raymond T. Bye:

> [Under capitalism] the ownership and control of capital is in the hands of particular persons, whereas in other proposed systems it might be in the hands of the state, or of the working classes.… Nearly all of our land, factories, railroads, mines, warehouses, stores, industrial equipment houses, furniture, clothing, food, and so on, are privately owned.… They are not common property. One cannot help himself to his neighbor's fruit nor trespass upon his land without his consent. Under our constitution, not even the state can take away one's property without compensation.
>
> …The ownership of property carries with it the right to use that property as one sees fit, to dispose of it by sale or gift, and to prevent the use of it by others. …Within wide limits [the owner] can dispose of his property as he wills.[9]

Professor Bye's treatment approaches that which Ruskin and other non-Newtonian theorists have developed. Ownership is a relationship between persons; to say that a person "owns property" means that he stands in a relationship of command and obedience toward other persons—he can order them to do certain things and prevent them from doing other things, such as using the material equipment of the community or consuming its food or working. This is clearly seen in the case, for instance, of slavery: the Emancipation Proclamation amounted to the confiscation of the property of the slaveholders, as they bitterly protested. But the same is true of all other species of property.[b]

Not to recognize this is to indulge in what a successor of Ruskin in this matter, Karl Marx, called "the fetishism of commodities." This fetishism is to mistake relations among persons for relations among things, and it is of course basic to all academic economics. As Ruskin knew, property or money means not a thing or a claim to a thing but "authority over men." To be able to charge a price is to be able to ration and allocate, to permit and withhold, to command and deny.

This character of the institution of private property has always been explicitly recognized. Aristotle knew it, as his anecdote of Thales reminds us. Thales "knew by his skill in the stars while it was yet winter that there would be a great harvest in olives." He therefore, "having a little money" gave deposits for the use of all the olive-prices, "which he hired at a low price because no one bid against him. When the harvest time came, and many wanted them all at once and of a sudden, he let them out at any rate which he please, and a quantity of money."[10] To Aristotle, perhaps with his tongue in cheek, this was proof that philosophers are not so impractical as is sometimes thought. At any rate this procedure of "engrossing" things which are valuable to the community and withholding them from use until the owner's price is paid—that is, the procedure of putting other people in the relationship of a person held for ransom—is the procedure of all business enterprise.

As such it has always and everywhere had the support and protection of government. That is what governments are for. The historian of this matter, Professor Vernon Mund, reminds us that for long periods in history the government and the business officials of many communities were one and the same. Under the ancient Egyptian kings, for instance, "all grain, flax, wool, spices, and all, was required to be sold to the government at a fixed price. The government then…resold them to private traders."

In the Roman Empire "the efforts of individuals to secure the sole sale of a commodity" continued. Individuals were granted concessions of this sort in return for aid to the sovereign in time of war, just as our Federal Reserve banks today receive note-privileges for their "war loans." In the Middle Ages the grant of exclusive rights in great and small matters continued and expanded, with the expansion in types of industry and trade. At this time privileges of the sort with which we associate private ownership—i.e., the privileges of shutting down or opening up factories, of employing or refusing to employ workmen, and so on—were called by the very apt term *privatives*, a word "which denotes privation or the absence of something." Of course it is obvious that "private property" and "privation" stem from the same root. If you own something it is your right, enforced by the courts, if necessary by the Army, to prevent others from using it.[c]

In due time the concept of privatives incorporated the idea of state protection explicitly. It is these "vested rights"—rights vested in owners by the sovereign, later by the government—which today constitute the system of permission and prohibition we call business enterprise, or the price system. The major development in the granting of vested rights as the world emerged from the Middle Ages was the growth of guilds and chartered corporations, The king with his prerogatives sold "patents" to private enterprises for the sale of products and the carrying on of trade in various parts of the world, just as he issued guild charters to center the various branches of manufacture. This process was speeded up, especially in England, by the Industrial Revolution and its forerunners. "Toward the middle of the 16th century trade and industry began to develop along national lines. Innumerable projects, innovations, and inventions were introduced by enterprising capitalists who sought to protect their investments by securing patents.…This situation gave Queen Elizabeth…a brilliant opportunity to further exploit her prerogative and she began to grant industrial and mechanical patents not only to inventors, but to her favorites for services and to capitalists for a consideration."[11]

None of this system was swept away with the Parliamentary Revolution. As the historian of these events has pointed out the Puritan abrogation of the principle of vested rights "accepted existing patents, as well as patents subsequently issued, on new inventions." New inventions were of course the most strategic items to withhold in an economic system rapidly becoming industrialized, so the importance of the exemption is obvious.

It is hard to understand why the importance for economic theory of the crucial struggle between the rising capitalists and the entrenched landed gentry in England at this time has never been appreciated, although all economists are aware of this struggle, The issue here was clearly "whether the power of the state should be used to maintain the high incomes of the farmers and landlords, or whether the import duties (the Corn Laws) should be reduced to safeguard the incomes of manufacturers and merchants."[12] Incomes depend on who controls the state and the army, as the Roundheads and the Cavaliers well knew, and as it seems economists would recognize. But the same book which contains this statement in a "historical" section speaks of the determination of income in the "theoretical" section as follows: "...This apportioning process is accomplished almost entirely by prices which attach themselves to want-satisfying means in markets." The obstacle which prevents a person from satisfying his wants is not his lack of mercenaries but "the relation between his income and the prices of things he desires."[13] This tautological vein is further explored by another recent writer who night have benefited by the history of landed power in England, or in the United States, for that matter. Various reasons for the payment of rent are considered, and the writer finally settles on the productivity of the land as the best, but "the power of the state" is never mentioned.[14]

The generalized form in which power appears today is the possession of money. With the income from their "patents" of all sorts handed down, some of them, from the days of Queen Elizabeth, some from the days of George Washington, some from those of William the Conqueror, present day inheritors are enabled to engross any new inventions or resources which may conceivably come into existence. "Inclosure," as the Sixteenth Century called it, is not mitigated by the fact that under free enterprise possession of money gives power whether or not the money is inherited. After all, many of the men whom Gerrard Winstanley pointed out in the Sixteenth Century as fencing in the public domain of heath and wood—just as today the public domain of science and technology is fenced in—were new men. That is what "free enterprise" means. Not only does enclosure proceed at the hands of the old lords; it is imminently open to the enterprising at home and to those who seek "to get in on the ground floor" abroad. For those excluded from the use of the former public domain, this of course makes little difference.

So much is notorious. The description of the process by which private property has arisen at the point of the sword and been maintained in the same way is an old story. Even the Mayor of New York City can refer to the withholding of meat from the public as "holding the public for ransom"—a feudal comparison which loses nothing of its pithiness when set beside other descriptlons such as "blackmail" and "a pistol at the community's head."

Many other pithy and illuminating descriptions of the functions of private property are in the storehouse of economic knowledge. "Enclosure" is a good example, and so are the mediæval terms "engrossing" and forestalling," not to mention "privatives." The name "private property" is sufficient description in itself with its emphasis on the *private* and its associations with privation. Or the whole function of businessmen may be conveniently looked at as exercising the "veto power" in modern society. "Bankers," the American economist William B, Greene wrote in 1849, "have a *veto* on the action of money, and therefore on exchanges of commodity; and they will not take off their *veto* until they have received usury, or, as it is more politely termed, interest on their money."[15] Obviously the right to grant employment or credit or housing—a right which inheres to employers, bankers, and landlords respectively—is a very powerful one. So much so that businessmen in general stand in relation to the community as a rationing board, with the price system the rationing system, and money serving as ration tickets. Under our present distribution of income, of course, most people have "A" cards and only a favorite few the coveted "C" card![d]

In all these ways may the system of private property be described. And all these descriptions have a flavor of reality immediately apparent to the average person, especially if he has been subjected to the banalities of marginal economics. How do conventional economic textbooks describe money, private property, and capitalism in general? Everyone knows. Money is "a medium of exchange," and private property and capitalism aren't mentioned at all. But this service which the new economics performs, the service of making it unmistakably clear that the price system is a rationing system, that power in our society goes with money and powerlessness where money is not, and that the whole direction of the rationing system, and the whole exercise of power inheres in those who have seized valuable natural and social resources under protection of the government[e]—the statement and elaboration of these truths is not the most important service of the new economics. This most important service is the relation of the whole idea and practice of seizure of the public domain and the resultant levying of tolls upon the rest of the community to certain other facts of social life. The most important of these facts is the inequality which has characterized all societies, which characterizes our present society, and which is back of the all-enveloping "enclosure" movement which is the development of free private enterprise in the western world.

Accumulated knowledge on inequality and property indicates that these two things are one thing, or, rather, two aspects of the same thing. When one stops to think about capitalism it is hard to make the concept clear in the absence of differences of economic power. As Adam Smith said in 1776, "Wherever there is great property, there is great inequality—for one rich man, there must be five hundred poor."[16]

To put this another way, the "enclosure movement" which inaugurated capitalism and which has remained its outstanding characteristic is both effect and cause of the differences in economic power and income which also characterize the system.[f]

A whole generation of students has been misled on this point. Because the "original" enclosure movement in England in the sixteenth century aimed at increasing the production of wool (by converting the commons into a vast sheep run) economists have associated free enterprise with efficiency and increased production. This interpretation overlooks the most important fact about the sixteenth century: England was at war with the Dutch almost continually. And war provides the best and perhaps the only escape from the prohibition of production imposed by economic inequality.[17]

Whatever the case with this "original" enclosure movement, there can be no doubt that typically men engage in enclosure movements—fencing in the land, resources, and knowledge formerly in the "public domain"—because the limited market for goods does not allow them to engage in production. This limited market of course exists because of economic inequality. Conversely, the establishment of privatives creates that differential flow of income which limits sales opportunities and therefore production.

This fact of economic inequality forcing talented individuals into "free enterprise"—that is, into engrossing such parts of the community's resources as may be—has been known for a long time. Sir Dudley North remarked in 1691 that "it is the poverty of consumers which produces glutted markets, and depression in trade."[18] Obviously with markets already glutted, there is, as we say, "no future" in producing more goods; businessmen are therefore forced to turn to other means of making a livelihood, chiefly trying to take other businessmen's businesses away from them and trying to enclose that portion of the public domain still unenclosed.[g]

Furthermore this is true not only of periods denominated by businessmen as "depressed," but all of the time. The lack of markets enforced by economic inequality leads to the typical restrictionist activities associated with private property during all periods, "prosperity" and "depression" alike. It is well known, for instance, that more or less idle or excess capacity exists in all industries, including agriculture, year in and year out. This capacity is excess in the sense that what Sir Dudley North called "the poverty of consumers" forbids its employment. The result is that businessmen instead of being able to devote themselves to the arts of production, instead of being able to pursue the creative life imaginatively described by John Ruskin, are forced to be businessmen, They are compelled to engage in the old game of buying up competitors, restricting output, proceeding cautiously with new inventions which might jeopardize their investments, and squeezing costs, especially labor costs.

The fact that labor unions engage in the same sort of restrictive activities including the limitation of output by long apprenticeships and restricted membership, opposition to technological improvements, and jurisdictional rules which prevent systemization of production, only emphasizes that the root cause of restriction in business and in labor is the same. In the one case economic inequality shows as lack of demand for goods; in the other, as lack of jobs. Businesses "naturally" (as Adam Smith would say, meaning "in the nature of the case") try to keep from flooding the market with goods and laborers strive to "stretch the job." The resulting activities are capitalism, or private property. What those phrases have reference to, if they mean anything, is a system of prohibitions on production which the guilds of of our time, both in business and in labor, impose to counter the threat of the limited market imposed by economic inequality.

Nevertheless all the measures adopted by both businessmen and labor unions to protect themselves from the insecurity which the "poverty of consumers" continually threatens are unsuccessful. This is the case in business for a very simple reason. Restricting production to counter the difficulties raised by the limited market restricts the market still more. For all production involves payments to consumers and cutting down these payments simply makes the problem of the harassed businessmen trying to find consumers tougher.[h] As Professor Alvin Hansen has put it: "Wage reduction is a two-edged sword. It reduces costs but it also reduces demand."[19]

This is true both where the level of output is reduced and where it remains the same. In the first place a reduction in wages incidental to a throttling of output to prevent "overproduction" succeeds only in lowering the scale of output at which the symptoms of overproduction appear. After all "overproduction" is relative. This phrase has no reference to the wants of consumers but solely to their purchasing power. When purchasing power is cut by a wage reduction, therefore, the symptoms of overproduction—a tendency for prices to fall—will appear at the lower level of output as they did at the higher. In the second place the only result of attempts to squeeze costs while maintaining output is to make impossible that maintenance. For output to be maintained in the face of reduced demand (*i.e.*, reduced costs) is impossible. The only exception to this rule is so-called "fixed costs"; a reduction in rentier income would not reduce demand, but by definition such payments are difficult to squeeze.

Restriction at the hands of labor unions is somewhat different from business restriction. The nice thing about cutting down hours of work, for instance, is that it gives the laborers whose hours are reduced more time to consume, and greater consumption is what must be had! This beneficial effect is especially important if hours are reduced and pay is increased at the same time. The post-war labor slogan, "Fifty-four-forty or fight"—meaning fifty-four hours pay for forty hours work—may shock the sensibilities of Puritans but it is sound economics. For such a program operates on both ends of the gap between production and consumption. On the one hand it increases purchasing power and on the other hand it decreases production. The community benefits to the extent that this sort of action brings purchasing power and production into line, not to mention the advantages which accrue to the laborers involved and to the community as a whole from the increased leisure

Nevertheless, this fact that labor union restrictions in some ways are not restrictions at all will not lead many people to justify many of the things which labor unions do. Here in first place fall the restrictions on technological progress associated with many unions. It is of course a shame that prefabricated houses or television or Linotypes should be delayed by the opposition of unions in the printing industry or among the musicians or in the building trades. Yet to complain about this opposition without recognizing that it is merely a symptom of the limited market is to be superficial. Labor-curbing legislation will no more solve this problem than the Sherman Act has solved the monopoly problem. So long as the incentive to restrict remains in the form of economic inequality, the manifestations of private property will appear. These manifestations always take the form of attempts at privation but as such they are merely reflexes. The purpose of no social system is to restrict production. Yet it works out that all social systems, not excluding that based on private property, do restrict production. The reason is that while people do not believe in the restriction of production, they do believe in classes. And the existence of a small class of the well-to-do and a large class of more or less impoverished consumers brings it about that production is restricted, irrespective of original intent.

From this point on the two processes are self-perpetuating. Once economic inequality enforces restriction of production the latter becomes an end in itself. Moreover this end is justified as the predestined lot of man and consumption itself is regained as sinful. It is sometimes thought that the distrust of consumption by the mass of humanity is an outgrowth of our Puritan heritage, but the connection is just the other way round. The Puritan heritage itself is the result of a situation where businessmen were being constrained willy-nilly to prevent the glutting of markets—the situation which Sir Dudley North described. It is a terrible thing for a man of the industrial age, with all the productive values which the industrial age insidiously inculcates, to bear upon his head the crime of restricting production. We can get some idea of the Puritan case by looking around us. Witness the advertisements of corporations in the United States today. What do our business managers like to remember in their past records—the thirties, or the war years? Do the farmers get a gleam in their eye when they talk about bumper crops—or when "plowing every fourth one under" is mentioned? Do the building trade unions boast of their rules against spray guns and prefabrication, or of their skill with hammer and saw?

Everyone knows the answers to those questions. Every businessman and every laborer is troubled by those interferences to output to which he is a party. And the doctrines of Puritanism in all their forms are an outgrowth of this feeling. The businessmen at the time of the Industrial Revolution had to salve their consciences in some way. During a depression, therefore, it was easy to say that the poor should be frugal and that if they had money they would just throw it away on liquor and luxuries anyway. With their own idle machines weighing on their minds it came handy to point out—as John Ruskin did later, for a different reason—that what the machines produced were after all unnecessary and corrupting baubles.

With the development of this type of thinking, however, the sinfulness of consumption and the Puritan virtues of thrift and saving became ends-in-themselves. These ideas then came to perpetuate the restriction of production which gave them birth. The mutual reinforcement of these two conditions—economic inequality on the one hand and private property, or Puritanism, or restriction of production, on the other hand—has continued and continues in the present day.[i] Meanwhile economists have pointed out that some other very important phenomena of the modern world are associated with these two conditions. It is to one of those, the business cycle, that we must now turn.

Notes

1 Werner Sombart, "Capitalism," *Encyclopædia of the Social Sciences* (New York, 1931) V, p. 195.

2 *Ibid.*

3 Mary Jean Bowman and G.L. Bach, *Economic Analysis and Public Policy* (New York, 1946) p. 19.

4 R.T. Bye, *Principles of Economics*, 4th ed. (New York, .1946) p. 1.

5 Albert Meyers, *Modern Economics* (New York, 1942) p. 1.

6 Edmund Whittaker, *Elements of Economics* (New York, 1946) p. 15.

7 John Ise, *Economics* (New York, 1946) p. 7.

8 A.G. Pigou, *Socialism Versus Capitalism* (London, 1937) p. 1, quoted by Meyers, *op. cit.*, p. 691

9 Bye, *op. cit.*, pp. 616-17.

10 Vernon Mund, *Monopoly* (Princeton, 1933)

12 W.C. Mitchell, "The Prospect of Economics," in the *Trend of Economics* (New York, 1924), pp. 5-6, quoted by E.A.J. Johnson, *Some Origins of the Modem Economic World* (New York, 1938 p.113.

13 Johnson, *op. cit.*, p. 3.

14 D.A. Worcester Jr., "A Reconsideration of the Theory of Rent," *AER*, June 1946, Vol. XXXVI, no, 3, pp. 250-277.

15 William B. Greene, *Mutual Banking*, (New York, 1927) p, 100

16 Adam Smith, *The Wealth of Nations*, p. 670.

17 *Cf.* the article on "Enclosure," *Encyclopædia of the Social Sciences*, V, p. 527: Enclosures flourished between 1760 and 1814 "thanks to war prices." Such flourishing raises new problems also related to the limited market. English agriculture was "over-extended during the war" against Napoleon, producing agricultural distress which led to the passage of the Corn Laws. (E.A.J. Johnson, *Some Origins of the Modem Economic World*, p. 112.)

18 Quoted by Victoria Woodhull Martin, *Humanitarian Money* (London, 1892) p. 6.

19 Alvin Hansen, *Fiscal Policy and Business Cycles* (New York, 1941) p, 554.

Chapter X:
The Theory of the Business Cycle

There have been many economic theorists, and not only Marxists, who have noted a cyclical recurrence of wars and revolutions and have interpreted this cyclical recurrence as stemming from economic causes. This is not, however, what most economists refer to when they talk about "business cycles" and "economic fluctuations." Most economists would not list war as a stage in the business cycle, and certainly not revolution. But no economist denies the existence of business cycles in a narrower sense.

Those are the cycles of prosperity and depression, slump and recovery, "boom" and "bust" with which all capitalist peoples are familiar. The patent facts of boom and bust have forced the creation of non-Newtonian "cycle theory"; marginal analysis and traditional theory have nothing to say on the subject. And just as the idea of "the poverty of consumers" has done yeoman service in the interpretation of private property, so has its influence been paramount in the theoretical formulation of the business cycle. The poverty of consumers according to the non-Newtonians *is* the business cycle. To put the matter the other way, the cycle of boom and bust is the institutions of private property, economic inequality, the poverty of consumers looked at over time.

A long line of dissidents from traditional doctrine have pointed out that under capitalism "the industrial process of making and the commercial process of distributing goods are both thoroughly subordinated to the business process of making "money"—*i.e.*, that capitalism is a set of privatives.[1] These dissidents have also pointed out that under capitalism "the two main sources of income are the ownership of property and the performance of work"—*i.e.*, that capitalism is economic inequality.[2] Given these two institutions the story of the business cycle has been eagerly investigated. All members of the profession, however traditional their ideas in other respects, have participated in this investigation.

All agree that the prosperity phase of a business cycle begins with a "legacy from depression," a legacy which the non-Newtonian members insist is in more fundamental terms a legacy of the system of privatives and economic inequality. At this stage buying is cautious—because consumers have little money, and cautious consumer buying makes for caution on the part of businessmen. Profit margins are narrow—because customers are scarce. Bank reserves are liberal—because sound loans are not to be had in the absence of consumer solvency. Prices are low—because that feverish speculation which results from opportunities to withhold things from people for a price is not yet great; very low prices accomplish the job of withholding, the job of enclosure, when incomes are very low. Few corporations are being formed and few new issues are being floated by old corporations—because the selling of stocks and bonds is possible only when earnings are in sight to pay dividends and interest, and the poverty of consumers insures that no earnings are in sight.

This condition can last indefinitely if "some propitious event" does not rouse business "from its partial lethargy." Some of the events which are propitious in this fashion are accidental with respect to a given country, such as crop failures in other countries. Nothing is better for American prosperity than crop failures in Europe, for instance. Or the propitious event may be itself cyclically derived, part of the institutions of capitalism, such as a war, an armaments boom or some other program of "public works." Foreign loans which provide purchasing power to consumers including governments in other nations will do the trick. Although not so popular—almost all "furriners" qualify for aid programs but it is un-American to give away money to Americans!—loans and outright gifts (relief payments) to domestic consumers including governments are likewise "propitious events."

With the expansion in the volume of trade which results from any of these "extensions of the market" the pace of business ("speculation") quickens. "When enterprisers have in sight as much business as they can handle with their existing facilities…they stand out for higher prices on additional orders." This "standing out" process is the application of the general principle of business to the specific situation of an increase in buying power. The principle is to "charge what the traffic will bear." This is the system of privatives, after all, and to deprive (to "stand out") is the order of the day. As a result of this fact, and of the fact that all businessmen buy and sell to and from, each other, the price rise spreads rapidly, "for every advance of quotations puts pressure upon someone to recoup himself by making a compensatory advance in the prices of what he has to sell." The rates at which groups of prices respond to the "stimulus of business activity" (the extension of the market) depends on the degree to which the various groups of businessmen control their part of the market. "Differences of organization in the markets for commodities, labor, loans and securities"—*i.e.*, differences in which the supply of meat, coal miners, call money, and stocks are cornered—these differences cause a differential rise in prices. Meat was withheld in the sprlng of 1946 and the price went up—upon the removal of OPA. An attempt to withhold coalminers was made in this same year, but the federal government prevented this withholding so the price of coal mining remained what it was.[a]

Because historically the power of labor unions to withhold labor has been less than that of corporations to withhold goods "the prices of labor lag far behind." Profits increase, however, and "this increase in profits, combined with the prevalence of business optimism, leads to a marked expansion of investments." All of these forces react cumulatively on one another to produce a boom. In Professor Wesley Mitchell's words:

> Not only does every increase in trade cause other increases, every convert to optimism make new converts end every advance in prices furnish an incentive to further advances; but the growth of trade also helps to spread optimism and to raise prices, while optimism and rising prices both support each other and stimulate the growth of trade. Finally…the changes going forward in these three factors swell profits and encourage investment, while high profits and heavy investments react by augmenting trade, justifying optimism, and raising prices…

Thus the relationship between the limited market, the temporary expansion of the limited market, and the prosperity phase of the business cycle. The picture appears to be bright: prices are rising. But there is another side of the picture. This is the development of crisis within the framework of prosperity. The same factors which "work cumulatively for a time to enhance prosperity…also cause a slow accumulation of stresses…that ultimately undermine the conditions upon which prosperity rests."

First among these stresses is "the gradual increase in the cost of doing business." The rise of prices which businessmen charge amounts to a rise in costs for those businessmen purchasing the goods, raw materials, and services involved. This rise in costs would not matter were there a corresponding rise in demand, since after all costs are important only insofar as they relate to the price at which goods can be sold. Costs which would be prohibitive in normal (depression) times are paid gladly and borne easily in periods of prosperity. In essence, therefore, the problem of costs is a problem of demand; the cost situation is a distribution-of-income situation. What has usually been called the stress of rising costs is nothing more than the stress as it shows itself at this particular juncture of "the poverty of consumers," a stress which has not only wrecked speculative bubbles time and tine again but has wrecked and threatened to wreck the free enterprise system in many countries, including the United States. But this has not been recognized by business cycle theorists because their viewpoint is that of the individual businessman, and to him the problem is one of "profit-cost relationships."

"A second stress is the cumulative tension in the investment and money markets." With the rise of prices and with "the desire of men of affairs…for controlling as many business ventures as possible" the price of money goes up. With this increase in interest rates "many projected ventures are relinquished or postponed." This occurs, in Professor Mitchell's words, "either because borrowers conclude that the interest would absorb too much of their profits or because lenders refuse to extend their commitments for them." But the question is, Why do borrowers conclude that a given interest rate would absorb too much of their profits? They conclude so at that point where the prices of the goods they sell can no longer be raised because of mounting "consumer resistance." Interest rates are high, in other words, only in respect to profit rates, and rates of profit depend in the last analysis on consumer demand. Those ventures "relinquished or postponed," therefore, are relinquished or postponed because customers are wanting for them; the relationship between interest and profit rates is merely the form in which this difficulty appears to the businessman setting out to control "as many business ventures as possible."

In this connection it is important to note the position in which the construction industries begin to find themselves both because their situation is very important to the rest of the economy and because this situation has been frequently misunderstood. It does not solve the problem to state that business enterprisers and capitalists alike defer the execution of their plans "when the cost of construction has become high." Obviously the cost of construction is high relative only to something which is low. It does not matter how high construction costs are if the investment can be amortized at a profitable rate. It is just the absence of such a possibility which enforces the deferment of many construction plans, and this absence is of course traceable in the last analysis to a dwindling market, or a market which is not growing fast enough because the general rise in incomes brought by prosperity is not uniform throughout the population; indeed, the rich get richer and the poor poorer, and it is the poor who are the nation's (potential) customers.

Industries are getting "over-built"—this is all that the "high cost of construction" means. The truth is that all the stresses which a boom involves resolve into stresses in the distribution of income. The boom is allowed to continue so long as costs do not encroach upon profits. "The only effective means of preventing disaster while continuing to build is to raise selling prices time after time high enough to offset the encroachments of costs upon profits, to cancel the advancing rates of interests, and to keep investors willing to contract for fresh industrial equipment." This would seem to be an easy formula: if costs rise, just raise prices again.

But, as Professor Mitchell says, "it is impossible to keep selling prices rising indefinitely," The root of this impossibility is the poverty of consumers. "The rise of prices is stopped by the consequences of its own inevitable inequalities," These inequalities "threaten serious reduction of profits to certain business enterprises, and the troubles of these victims dissolve that confidence in the security of credits with which the towering structure of prosperity has been cemented."

Such a cumulative and precipitate decline as that which took place after 1929 appears to the individual businessman as "costs encroaching upon profits" and "a tightening of credit" and for this reason economists have treated these phenomena in the same terms. It is natural for businessmen to find a cause of crises in "high labor costs," for example, or "a scarcity of capital," for that is the way it looks to them. It is natural for them to think that "construction of new equipment has increased the capacity for production faster than the demand for their wares has expanded." But from the point of view not of the individual businessman but of the non-Newtonian student the distributive institutions are "the repressing influence." It is true that "the high prices that must be charged to prevent a reduction in profits" are "the repressing influence" if what this means in terms of the distributive institutions is clearly understood. But by and large most economists, taking the point of view of the individual businessman which their "individualist" and "amoral" attitude compels them to take, have not been led to point to the distributive institutions as the root of the matter. Instead they have been content to lay the trouble to "high costs," especially high labor costs, just as the businessman does.

It is thus that even Professor Mitchell finds the "inequalities" which produce the stresses in the prosperity structure to be other than income inequalities. He asks himself the question: "Does consumers' demand grow fast enough to absorb the forthcoming supplies at the continually rising prices that must be charged to prevent costs from encroaching upon profits?" Unless it can be shown, he argues, that it does not, the underconsumption theory of the business cycle must be abandoned. Then he argues as follows: "If the chief stress arose from the lagging of consumers' demand behind the supply of consumers' goods…consumers' goods would be the first to fall in price, and this decline would extend to the prices of producers' goods and of raw materials." Actually the opposite is the case. "The impossibility of defending profits against the encroachment of costs is experienced earlier by enterprises that handle raw materials and producers' goods." This price information is supplemented by current reports during crises periods. "The technical journals usually report that the factories and wholesale houses are restricting their orders some weeks, if not months, before they report that retail sales are flagging."

All this is true but it does not touch the under-consumptionist position. As other economists have observed, for what reason would "factories and wholesale houses" restrict their orders other than the prospect of a diminution in trade? The fact that they restrict their orders some "weeks, if not months, before they report that retail sales are flagging," indicates that they recognize the situation which the community is coming to as regards purchasing power. Surely alert salesmen for neither factories nor wholesale houses would force their home offices to restrict orders for raw materials and producers' goods while they were still finding it easy to fill their advance order books!

What seems to be involved here is the theoretical necessity of denying the presence of under-consumption. It becomes necessary to go to all sorts of extremes to find other reasons for the collapse of the business structure. The rule of Occam's Razor should perhaps be applied. If it were it would be obvious that the explanation of a deficiency of consumer demand cuts through all the other explanations of business collapse which are recognized.[b] Prices encroach upon profits, of course; they would not if profits could be maintained through greater sales and production volumes—that is, if there were greater markets. Construction costs become prohibitive, yes; but only in relation to the demand which businessmen foresee. The decline begins in the raw materials and the producers goods industry before it hits the consumers goods field; but the imminence of the latter decline is the only explanation of the first.

Why have the business cycle theorists gone to all this trouble to deny the obvious? One cannot help but think that it is traceable to their individualist or "rationalist" position. It comes hard to individuals who believe themselves to have thrown off the last vestiges of superstition and tradition to recognize that our major institutions are still those of feudalism, that feudalism which all children of the Enlightenment believed eradicated by the Glorious Revolution. Their unwillingness even to consider a possible deleterious effect of economic inequality shores up their most passionate belief in the "rationality" of the economic system. This belief has all the support of immemorial tradition behind it, and is not likely to be tampered with.

Yet it is nevertheless true that "the very conditions that make business possible gradually evolve conditions that threaten a reduction of profits."

This is true not only with respect to a particular business cycle, but with respect to capitalism in general.

When the difficulty or impossibility of raising prices becomes very widespread the reduction in profits which results in some fields of business creates further stresses, stresses which ultimately bring down "the whole towering structure" of credit on which the prosperity is built, "The unwillingness of investors to let fresh contracts threatens loss not only to contracting firms of all sorts" but also to all those firms with which the contracting firms themselves trade. In addition "the high rates of interest not only check the current demand for wares…but also clog the effort to maintain prices by keeping large stocks of good off the market"—an effort which even if successful is doomed to failure. Such "investments in inventory" inevitably cause large losses to those businessmen "caught" with them. That they are made at all indicates that all businessmen are caught in a dilemma. If they dump goods on the market, they face the danger of flooding the market and sending prices crashing down; if they hold goods, they may take even larger losses later. Of course all the trouble would evaporate if dumping the goods would not flood the market—but that is where the "stresses of inequality" come in. "The very conditions that make business profitable" at any given time destroy profitability in the sense that profits themselves are piled up only at the expense of a flow of funds to the community at large.

The collapse of business is aggravated by the institutional reflex of economic inequality, the system of privatives itself. Under this system the control of any resources conceivably valuable to the community entitles the controller to a pension in the form of a "security." The value of these securities of course increases during the prosperity period as profits increase. The result is that "when profits…begin to waver" stock and bond holders find their securities have become insecure. They therefore begin "to refuse renewal of old loans to the enterprises that cannot stave off a decline in profits, and to press for a settlement of outstanding accounts" This restriction of credit makes the situation worse. The very principle of the privative system, and of the pensions which privatives make possible, is deprivation, deprivation which people will pay to avoid. When people can no longer pay to avoid deprivation the value of any given privative must undergo a re-rating. This re-rating process is the shrinkage of stock and bond prices and indeed the partial or complete destruction of what had been regarded as "gilt edge" pensions. It is no wonder that the National Association of Manufacturers considers it a cruel joke to refer to free enterprise as "the profit system." It is, as they prefer to say, the profit-and-loss system.

Notes

1 Wesley C. Mitchell, *Business Cycles and their Causes,* (a new edition of Part III of *Business Cycles*, Berkeley, 1913). All quotations in this chapter are from this volume, unless otherwise specified.
The purpose of this chapter is to indicate the under-consumptionist analysis of the whole course of events in the business-cycle sequence set forth most clearly and cogently by Professor Mitchell. Concerned as they have been with the chronic tendency to depression steaming from economic inequality, the under-consumptionists have not typically traced the business-cycle sequence in detail, and that is therefore what is attempted here.

2 Benham and Boddy, *Principles of Economics*, p, 22

Chapter XI:
The Theory of War and Depression

War stimulates business but it also sets forces in motion which ultimately accentuate depression. The integration of a number of separate studies in which economists are now engaged indicates that war and depression, like economic inequality and private property, are cause and effect. Indeed, all four phenomena are one phenomenon in various aspects.

The connection between war and depression is apprehended in certain rough and approximate ways by everybody. Everyone knows that prosperity exists during wartime and relative depression, at least, during periods in which a nation finds itself so unlucky as to be at peace. Since the common man knows that booms cause slumps—"everything which goes up has to come down"—he is ready to believe that wars and depressions are similarly related.

Related they are, but not in the way commonly supposed. There is no mechanical reason why depression should follow war, any more than that prosperity should follow depression. But wars are in fact prosecuted in such fashion that depressions are almost inevitable when the peace is signed. Conversely, depressions are "prosecuted" in such fashion that wars are almost inevitable once a depression is under way. And in both cases—or, rather, in the one case, since depression and war realistically considered are merely early and late stages of the same event—the role of economic inequality and its product, the system of privatives we call free enterprise, is paramount.[a]

Economic writers have dealt with the interrelationships between business collapse and armed conflict at least throughout modern times. The second president of the United States spoke of some of those connections in the following terms:

> I am old enough to remember the war of 1745 and its end, the war of 1755 and its close, the war of 1775 and its termination, the war of 1812 and its pacification. Everyone of these wars has been followed by general distress, embarrassments of commerce, destruction of manufactures, and a fall in the prices of produce and of lands.[1]

Now such a statement as this from John Adams does not, it is true, make explicit reference to the "poverty of consumers." This is explained by the viewpoint of economists. Because economists have traditionally been men of affairs or have looked at economic phenomena with the eyes of men of affairs, discussions of the "embarrassments of commerce" which always follow wars have typically focussed on another economic institution. This is and always has been the national debt.

Thus depressions are commonly laid to the "burden of debt" which war leaves as its heritage. Citizens who would never dream of questioning the rightness and efficiency of economic inequality have no hesitation in blaming the ills of society on the "burden of debt." Yet when we inquire precisely how and in what way war debts are a burden we find that "the burden of the debt" is only another way of saying "the poverty of consumers."

Wars bring prosperity because they widen the market. While a war is being fought—while, that is, a war debt is being created—the depressing effects of the poverty of consumers are negated. Individual customers may still be lacking but a tremendous new customer, the government, comes into the market. But this also means that there comes a time when the big customer departs the market.

When this time comes, the very fact that war financing through debt-creation has made some men rich begins to take its toll. The depressing effects of economic inequality, so lately counteracted by government buying, are accentuated. The "general distress" and "destruction of manufactures" which now ensue hold the community in their grip until the point is reached where more war debts are created and the depressing effects of under-consumption are again temporarily overcome,

War debts, in other words, are self-perpetuating. Given depressions there will be wars; given wars there will be war debts; and given war debts there will be depressions, wars, and more war debts.

While great emphasis has been placed by economists on the debts created by wars these debts have been but one of the "dislocations" and "maladjustments" stemming from war.

National debts have received more attention that other factors, but they have their extreme importance in the context of these other factors. Most economists are agreed that "whatever the intervening secondary causes may have been, the ultimate cause of the great depression…is to be found in the impoverishment and economic dislocation caused by the war which began in 1914." And this "great depression" was not the first of its kind but the latest in a series. "No one would contend," Professor J.B. Condliffe writes, "that…economic depressions are solely consequences of war. But the economic history of the modern world affords abundant proof that the distortion of economic activity occasioned by a great war inevitably increases the severity and lengthens the distress of these periodic fluctuations of industry."[2]

The question is, What kind of distortions? What is the nature of these "dislocations?" Economists agree that these phrases have reference to the "disorganization" of production. By this they do not mean solely that sort of disorganization which occurs on a battlefield or where cities are bombed. Disorganization affects countries which, like the United States in the two world wars, were not a field of fighting. The sense in which production is disorganized in these countries is this: industries are "overbuilt." So is agriculture. The results of this process of "overbuilding" were very clear following the first World War.

In the first place, "to remedy the shortage of bread in Europe, the United States…vastly extended its wheat production…" After the war "restored production in Europe…presented the world market with the problem of huge accumulated stocks and surplus production of this basic commodity."

In the second place, during the war "chemists found ways of producing nitrogen from the air and after the war the Chilean nitrate industry collapsed."

In the third place, "in Great Britain, and also in neutral countries, and in the United States, Japan and even China shipbuilding yards were greatly extended…" The troubles of world shipping which followed the war "date from the immense increase of the world's merchant marine." The shipbuilding industry was prostrated at the same time: "new shipbuilding yards had come into existence with greatly increased capacity and this basic industry has been depressed ever since."

In the fourth place, "a great fillip was given to industrial development in new countries, such as Japan and the British dominions, which after the war competed directly with the restored production of Europe."[3]

Now in all these instances of "over-production" and "over-capacity" caused by the war—how familiar they seem today after World War II!—it is obvious that the troubles of the world are not due only to increases in production and in productive capacity. What World War I contributed to bankrupt Chile and to depress agriculture and the shipping industry was not only the "over-stimulation" of production but "a breakdown of the distributive system." No one thinks that "over-production" means the production of more goods than people can use. If this were so there might be some sense in repeating the platitudes of Adam Smith—"the capacity of the human stomach is limited"—and his modern counterparts—"it is futile to grow more wheat than can be eaten." For as economists who nevertheless quote Adam Smith on this subject always go on to say: "It would be irony to pretend that there is too much food in a world where famines still occur or too great production while standards of living, even in advanced industrial countries, remain deplorably low." There is no over-production, only underconsumption. And that is where the first of the dislocations of war comes in.

This dislocation is "the burden of debt" which is the heritage of war. The connection between the creation of war debts and the breakdown of the distributive system which inevitably follows and which intensifies the effects of "over-building" can be readily grasped if one recalls how war debts are created. Governments fighting wars need money. Traditionally "instead of confiscating what they wanted, or taxing their citizens heavily enough to get command of these resources, they borrowed. …With the proceeds of their loans they went into the markets and bought…"

Now while the proceeds of war loans are paid out to the whole community, different sections of the community receive different shares. "The first gains accrue to the organizers of industry," the war contractors.

The second gains accrue to the banks whose portfolios become filled with war bonds. At the same time high prices lay further heavy burdens on the mass of consumers, increasing income inequality at the cost of laborers and consumers and in favor of war contractors. Finally, it so happens that the owners of industry and the owners of the banks—the war contractors and the bond-holders—are one and the same. The result is that at the end of the war income which might have provided business for the over-built agricultural and commercial establishments has flowed into a few hands where it does not provide such business. *This* is the burden of the war debt, and it is accentuated when the war debts are paid off by sales taxes, which further decrease consumer purchasing power.

The burden of debt under which the whole community labors is obviously a burden on each individual business firm. With the rising prices and profits of World War I "the capital value of farms and factories was written up and the recapitalization of property resulted in heavy and fixed contractual obligations." So long as prices were kept up by the purchases of the government during the war corporations and farmers could service their debts. "No serious damage was done as long as prices remained high." But when they collapsed, "as they always do eventually after such booms," the "burden of costs" became unbearable.

It should be obvious by now why it is that prices collapsed in 1929, "as they always do eventually after such booms." The very fact that prices are high and rising means that a disproportionate amount of income is flowing to a small portion of the community—the recipients of the high prices. When another slice of the national income is diverted to this same small group in the form of interest on war bonds, the income remaining for the purchase of goods—available in increased quantities because of the "over-building" of war—is further reduced. The result is "huge accumulated stocks and surplus production."

Such facts are generally recognized when we talk about relations between countries. Everyone now knows that a highly industrialized country with an export surplus makes loans to countries which purchase its goods. But it should be equally obvious that domestic markets cannot be held unless purchasing power is forthcoming for customers at home. It is true that to the extent installment loans were made to consumers during the twenties the boom was prolonged. But with industry and agriculture over-built and a tremendous "monetized" war debt hanging over the American people, something more than installment loans—which after all have to be paid off—was necessary. Something more is necessary today. If the connection between war and depression is to be broken steps must be taken to prevent wars from being conducted in a way which not only does not relieve but actually aggravates "the poverty of consumers." We might make loans to consumers and then forgive these domestic debts just as we forgive Allied war debts!

Just as there is an "undoubted connection…between the war of 1914-1913 and the depression" so is there an undoubted connection between the depression and the war of 1939-1945. Moreover, previous wars and depressions were connected in the same way, at least throughout modern times, and economists have long been at work demonstrating this relationship.

In the first place depressions breed dictators, and, as Professor J.M. Keynes says, to "dictators and other such, war offers, in expectation at least, a pleasurable excitement." Once in the saddle such leaders "find it easy to work on the natural bellicosity of their peoples."[4] It is in this sense that we can trace a clear sequence from the world-wide depression which followed the stock market crash of 1929 to the unemployed in Germany who flocked to Hitler's banner to the Nazi aggression and the resulting turmoil in Europe.

In addition to the "natural bellicosity" of the peoples of the world, especially when they are out work and hungry, there are other economic forces at work in all countries where demagogues flourish, "facilitating their task of fanning the popular flame." These forces are those attendant on the competitive struggle for markets in which all the industrialized nations of the world engage. Indeed, as this overseas struggle for markets takes place in default of markets at home the cause and the program of demagogues—depressions and imperialism—are but two aspects of the same situation.

In an environment of limited markets imperialism and totalitarian militarism feed upon one another. Where "opportunities for national economic expansion are very unequal…some nations have been tempted to resort to military pressure in their efforts to open avenues of economic growth." Public support for these imperialist adventures is provided by the same depressions which occasion them, because imperialism, whatever its other drawbacks, does provide employment. "No urge for measures calculated to protect domestic markets from foreign competition is more potent than that of unemployment."

Military strength as a means of economic protection easily becomes an end-in-itself, it is true. But denouncing "Japanese militarism" without understanding the economic pattern in which it flourished is too easily to absolve the institutions of western capitalism of war-guilt. The truth is, as Professor Hugh B. Killough has pointed out, that Japanese aggression was a reaction to world economic collapse. The loss of her world markets caused by the spread of the 1929 depression from the United States drove her to "defensive war"; it provided the atmosphere of unemployment which is the "most potent urge" to such aggression. The Japanese felt that if Japan exercised political control over China, she would be "in a position to prevent the Chinese from placing restrictions against the importation of Japanese goods."[5]

Understanding the Japanese recourse to military imperialism would be easier if we recalled some of our own "defense mechanisms" of the twenties and thirties. The "fear of goods" which animated our whole international policy of that period went far beyond the continuation of the traditional tariff barriers in the United States and the adoption of protection by England. So greatly did the Western nations detest the idea of imports that they refused even to collect their due reparations from defeated Germany. The reason was obvious. Reparations were unacceptable to the Allies because it meant "having their industries crippled by German exports." It is true that acceptance of reparations would have meant that the recipient nations would have received tribute from Germany. But as Professor Joseph Schumpeter puts it with his customary wit, "looked at as a business proposition, the…tribute would have been nothing else but a 'commission' paid by Germany for the industrial conquest of the better half of the world."[6]

What the phrase "a business proposition" has reference to is the whole system of income distribution in capitalist society, for it is the "poverty of consumers" which makes imports crippling and would have made German reparations a means for the industrial conquest of America and England. For domestic industries need not suffer if reparations goods can be consumed in addition to home goods; *i.e.*, if the standard of living can rise. But it is just this which is impossible given the low income of the mass of consumers under free enterprise. In the absence of mass purchasing power imports which might mean rising standards of living mean only flooded markets and unemployment.

The new light on the functioning of our economic system which the case of Japan and the case of reparations should throw is badly needed at the present time if we are to understand how American capitalism looks to the rest of the world, and especially to Europe. Our announced opposition to "the spread of communism" must always seem disingenuous to Europeans in the absence of self-criticism. If Americans imply that the old unregulated capitalism is what they have to offer in the place of the spread of communism this implies that none of the troubles of the world, including the two world wars, were produced by the old unregulated capitalism. Nothing could be further from the truth. It is for this reason that to be effective, opposition to communism (Stalinism) must be done in the name of a thorough-going reappraisal of capitalism leading to either some kind of socialism or such a revision of the distributive institutions of capitalism as will prevent the periodic breakdowns of the past. For to Europeans the capitalist system in its present form must forever be regarded as a "beggar-thy-neighbor" system, and they very reasonably do not wish to be tied to it.

As Keynes said, "under the system of domestic *laissez-faire*…there was no means open to a government whereby to mitigate economic distress at home except through the competitive struggle for markets." But engaging in this struggle destroys *laissez-faire* and elevates totalitarian governments. The alternative is the attainment of sufficient markets at home. With such attainment "there would no longer be a pressing motive why one country need force its wares on another or repulse the offerings of its neighbor. …International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbor which is worsted in the struggle, but a willing and unimpeded exchange of services in conditions of mutual[b] advantage."[7]

Notes

1 John Adams, quoted in Committee on Public Debt Policy, *Our National Debt after Great Wars* (New York, 1946) p. 1.

2 J.B. Condliffe, *War and Depression* (Boston, 1935).

3 *Ibid.*

4 J.M. Keynes, *The General Theory of Employment, Interest and Money* (New York, 1936) p. 381

5 Hugh B. Klllough, *International Trade* (New York, 1938)

6 Joseph Schumpeter, *Business Cycles* (New York, 1939) Vol. II, p. 704. *Cf.* Hayes, *Spending, Saving and Employment*, pp. 102-3; Winston S. Churchill, *The Second World War* (Boston, 1948) Vol, I, Chapter 1

7 Keynes, *op. cit.*, pp. 302-3.

Chapter XII:
The Theory of Peace and Revolution

At the peace conference following the first world war the political philosophy of the representative of France was manifest in everything he did. Clemenceau thought, an observer at the conference said, that there was "nothing very new to learn about this war or the end it was fought for." Like other wars, it was a battle of competitive nationalisms. "England had destroyed as in each preceding century a trade rival; a mighty chapter had been closed in the…struggle between the glories of Germany and of France."[1]

We would be mistaken to dismiss this cynical analysis of "the war to make the world safe for democracy" as that of a bitter old man. Not a few of the greatest contributions to non-Newtonian economic theory have been made by practical men, including politicians. Indeed, the thesis of Clemenceau may be taken as a point of departure in the integration of the contributions to this subject. There is no doubt, for one thing, that rivalry among nations in modern times is rivalry for trade. As the statement that "England had destroyed, as in each preceding century, a trade rival" suggests, the connection between war and trade is an old one.

No one thinks that the content of nationalism is purely economic. "In group" feeling is as old as history. The fact that the first world war was at the same time a struggle between commercial rivals and a struggle between "the glories of Germany and of France" emphasizes the continuity between the modern and the feudal world. Trade rivalry nevertheless does give a characteristic pattern to the wars of modern times.

The very process of war itself eliminates foreign competition. The destruction which war entails not only provides a job of reconstruction which is very good for business, but it removes from the scene rival factors which not only supplied the markets which they must now default on, but threatened to supply the victorious nations' markets in the old days. Peace may for this reason see a boom in the export industries of a victorious nation, a boom which may outweigh or partially outweigh the depressive effects of the cancellation of war contracts.

Thus the Assistant Secretary of State for Economic Affairs pointed out after World War II that "global war by definition means not merely the effort to destroy the military forces of the enemy; it means also… disrupting and destroying the economic life which supports the enemy." Estimates of damage, he went on to say, "run to more than one-half the industrial wealth in those countries which suffered most." This is true both in the raw materials industries and in the manufacturing field. The greatest source of supply of coal, the Ruhr, was barely above fifty percent of prewar production two years after the end of the war.

"The result is," the Secretary announced, "that we are shipping coal to Europe from the United States at the rate of more than 2,500,000 tons a month, where our total yearly shipments were perhaps 50,000 tons before the war. That coal…is costing European countries $22 or more a ton…"

This same boom effect of destruction is felt in other lines, "Cotton would be selling at not more than thirty-five cents per pound if we had not sent millions of bales to foreign countries…"

Again: Germany before the war "was a workshop and supplier of manufactured goods, a railroad center, a shipping artery, a financial complex. …It is far from that today."

Nevertheless this happy result of war from the standpoint of American manufacturers, bankers, and shipline owners is complicated for two reasons. In the first place "Americans own factories abroad. …Private investments carried over from before the war bulk exceedingly large. As owners and creditors," the Assistant Secretary of State reminded his nation of owners and creditors, "we have a very real and tangible stake in other economies." In the second place the leading defeated nation was before the war "a purchaser of raw materials and food from other parts of Europe" and in this respect too its postwar situation was far from that before the war. This is important not only to investors in German industry but also to exporters to Germany whose sales depend on German national income which is in turn dependent on Germany's central position in Europe.

These various complications account for the contradiction: the Secretary of State announces that "the United States is opposed to policies which will continue Germany as a congested slum or an economic poorhouse in the center of Europe" at the same time the United States destroys industrial capacity in Germany.[2]

This contradictory pattern is readily observable in the writing and in the application of the peace treaty which followed the first world war. As a document detailing the economic interpretation of history and vindicating the thesis of the underconsumptionists that war is a struggle for markets, the agreement which Clemenceau helped draw and which J.M. Keynes fought so vigorously leaves nothing to be desired.

By the peace terms of Versailles, Germany was stripped of her overseas possessions and these potential markets and investment outlets turned over to the victorious Allies. The decision as to whether individual German businessmen "shall, or shall not, be allowed to reside, hold property, trade or exercise a profession" in the former German colonies was left wholly to the Allied government taking over. These steps looked to deprive Germany of her colonial markets and outlets for investments. Such deprivation meant acquisition of the same markets and outlets by the Allies. Acquisition of this sort is necessary only to countries which suffer from a lack of markets at home and a lack of investment outlets at home—countries, in other words, in which income is so distributed as to prevent the sale of goods produced by excessive capital equipment and to discourage investment in new capacity.

Other provisions of the Versailles treaty also stemmed from the limitation of world trade enforced by the limitation of world consuming power. Germany ceded to the Allies her entire shipping, including all vessels owned by Germany whether flying her flag or not. The end result, a happy one in a world of limited carrying trade, was that "the German mercantile marine was swept from the sea."[3]

Trade rivals need not only markets and shipping but industry. Therefore the signatories of the Versailles treaty took direct steps to throttle German industrial production. The Saar basin, where the German coal industry was concentrated, was the key to "the economic interdependence of Germany and her neighbors of the pre-war period." Detachment of the Saar Basin and the consequent destruction of the "delicate pre-war economic organism" of Europe was not willful, as Professor Keynes and other economists seem to think. It was essential and necessary from the point of view of nations laboring under the eternal difficulty of competition from German industry. The war, the provisions of the peace, and the "delicate pre-war organism" were all connected. As Professor Keynes himself said, apparently without realizing its significance, "inequality was a vital part of the pre-war order of society."[4]

War purposes, to generalize from the Treaty of Versailles, are three: the acquisition of the colonies and other markets of the vanquished, the elimination of her merchant marine, and the removal of her industry from the competitive scene. All of these purposes must be understood in the context of the periodic elimination of trade rivals with which England and the other industrial nations have found themselves occupied. All these steps are necessary if industrial nations crippled by economic inequality at home are to find markets for their goods, shipping for their ships, and security for their industries.

It is interesting to compare World War II on these scores with World War I. The similarities are great enough to justify the application of Clemenceau's statement that "there is nothing very new to learn about this war or the end it was fought for" to the events between 1939 and 1945.

First, what happened to the colonies of Germany and Japan? Germany had none at the end of this war, so this problem did not arise. Those of Japan are being stripped from her much as those formerly belonging to Germany. Furthermore, the United States and Great Britain recovered through victory in the war their own possessions in the Pacific which Japan had tried to take over for her own markets.[5]

Second, what about shipping? Again the story is much the same. The treaties on this subject are not yet written, and the *de facto* situation is not yet as clear as in the case of the colonies, but all indications point to a lessened role for Japan and Germany on the high seas. So far there are few or no ships wearing the German or Japanese flags engaged in international commerce.

As for German investments, they have been confiscated just as they were last time—Professor Keynes' references to "the large properties now within the custodies of Public Trustees and similar officials in the Allied countries" sound familiar; today we call the Public Trustee an "Alien Property Custodian." After the last war the main prize among German overseas corporations was "the fine and powerful German enterprise in South America known as *Deutsche Überseeische Elektrizitätsgesellschaft*." The main catch today is General Analine. Times have changed very little after all.

Third, what about industry? The program here, as the most publicized part of the peace settlement, is well known. According to announced policy Germany is to leave the ranks of the industrialized nations.

In these essentials, therefore, the recent war was "just another trade war." Economists should not lose sight of economic forces even when they are hidden by the smoke screens of patriotism and "globaloney." "Prudence required some measure of lip service to the 'ideals' of foolish Americans and hypocritical Englishmen," Clemenceau thought (as interpreted by Professor Keynes). "But it would be stupid to believe that there is much room in the world, as it really is, for such affairs as a League of Nations, or any sense in the principle of self-determination except as an ingenious formula for rearranging the balance of power in one's own interests." Clemenceau's analysis was sound. It embodies most of the economic information which we have on the subject. The world "as it really is" cannot have much room for Leagues of Nations, since all nations are trade rivals; the "interests" affected by the balance of power are largely economic interests made acute by the poverty of consumers.

Peace treaties are made by economic inequality and they are unmade by it. This is the case because an unanticipated consequence of war is revolution. Conflicts eventuate not only in peace treaties but in the overthrow of established governments. After World War I revolution broke out in Czarist Russia, colony of Western Europe and the United States.[a] After World War II the bonds of empire are snapping around the globe, and the hand of revolution has been strengthened in Communist Russia. In both cases these events have unmade the announced policies of the Allies to de-industrialize Germany, and in both cases these events have been the untoward effect of economic inequality in the industrial nations.

So much can be formulated from a consideration of the particulars in which the peace treaties were carried out, and the particulars in which they were not, after World War I and after World War II. Our starting point here may very well be a review of *The Economic Consequences of the Peace* written by the foremost American economist in 1920.[6] In this review Thorstein Veblen said that Keynes had made the mistake of taking the words of the treaty at face value. Actually, events following the treaty showed that the Allies meant nothing of what they said. The treaty was administered "in a well-conceived spirit of *opera bouffe*." The economic consideration which led to the failure, in part, of what Keynes called "the Carthaginian Peace" are still with us, and an examination of these throws further light on modern war and its connection with the "poverty of consumers."

First of all, Veblen said, Keynes forgot Soviet Russia. On the one hand, the Allies would have liked to see Germany become an agrarian state; on the other hand there was the spectre of Socialism. To de-industrialize Germany meant the removal of an all-important buffer between East and West: "The events of the past months," Veblen wrote in 1920, "go to show that the central and most binding provision of the treaty (and of the League) is an unrecorded clause by which the governments of The Great Powers are banded together for the suppression of Soviet Russia…" Of course, "this compact for the reduction of Soviet Russia was not written into the text of the Treaty; it may rather be said to have been the parchment upon which the text was written." Nevertheless—or perhaps consequently—"apart from this unacknowledged compact there appears to be nothing in the Treaty that has any character of stability or binding force."

The coming of Soviet Russia onto the international scene made necessary the amendment of the Treaty provisions for the reduction of Germany. Whereas Germany threatened the markets of the Great Powers, Soviet Russia threatened the very order of society itself. It was, according to Veblen, "Mr. Keynes' too superficial review" of these facts which led him to take "an unduly pessimistic view" of the provisions for removing Germany from the ranks of industrial nations via the threefold route Keynes described. The main consideration of the Treaty was "the defeat of Bolshevism at any cost." To this end "a notable leniency, amounting to something like collusive remissness, has characterized the dealings of the Powers with Germany hitherto."

Again it is hard to see that times have changed very much. After World War II the Great Powers—or perhaps there is only one Great Power now—find again that Soviet Russia is the outstanding political fact. And again this means that removal of Germany as an industrial nation is fraught with danger. So the debate goes on; a strong Germany or a nation of farmers? Everyone knows that the basic question involved is the balance of power *vis-à-vis* Russia. It may be that again the fear for the order of Society itself will overcome the fear of Germany's threat to the markets of the Allies, and an industrialized Germany may rise again.

Thus the connection between "the poverty of consumers," war, peace, and revolution. Victors in war aim to eliminate those conditions which impair their foreign markets, markets which must be sought out because of the absence of domestic markets. Nevertheless certain developments after both World Wars have prevented the success of these war purposes. Almost in spite of themselves the nations whose economies are based on privatives find themselves "building up" the very nations they have so recently bent all their efforts to destroy. After World War I the "free enterprise" nations found themselves in this position because of the establishment of Soviet Russia.

It is not hard to show the connection between the growth of Bolshevism and that same situation of economic inequality which is at the root of war. Economic inequality produces revolution. So far the revolutions which economic inequality and the system of privatives in the United States have produced have been outside our own borders. Nevertheless events in the United States—from Shay's Rebellion to the outbreaks in the middle west in the 1930's—suggest that the domestic possibility is not one to be overlooked.

Economic inequality is directly to blame for some revolutions; indirectly for others. The Bolshevist Revolution falls in the second category. No economist has tried to show that it was the inadequate purchasing power of the masses in Russia which led to the overthrow of Czarism. Yet all have linked this overthrow to the system of privatives in Russia as they determine the fortunes of the people, especially as this system leads to war; "Peace, Land, Bread" was the slogan of the revolution. Even more important, however, as the forcing ground for the Russian Revolution was the world the Russians lived in, a world which involved her in the war in the first place. This world was the world in which trade rivals were—and are—forever jostling each other for markets. This jostling always leads to war, and wars almost always are accompanied by revolutions.

In the last analysis, therefore, Veblen's "Elder Statesmen" had themselves to thank for "the spectre of Bolshevism." In the last analysis the social and economic conditions which indicated to the Elder Statesmen the reduction of Germany also indicated the building up of Germany. This dilemma confronts the Elder Statesmen today. The question is, shall we de-industrialize Germany and therefore make it a little easier for our system of privatives, at the cost of "setting it up" for Russia? Or shall we allow Germany to keep her industry—at the cost of "setting it up" for Germany? The dilemma is not to be resolved, as is usual in such cases, except by a third alternative; the elimination of the system of privatives itself, and that calls for the reduction neither of Germany nor of Russia, but of economic inequality, the economic inequality which makes nations trade rivals by definition and which produces, as a corollary to the rivalries of trade, wars and revolutions.

This generalization results from a consideration of our present economic information on the subject of wars and revolutions. Newtonian economic theory, needless to say, does not generalize on these questions. Again the real and lasting contributions to economic theory have been made outside the framework of economic theory proper, under the stress of urgent social problems.

Notes

1 J.M. Keynes, *The Economic Consequences of the Peace*, (New York, 1920), p. 33.

2 Willard Thorp, *Problems of United States Foreign Policy* (Washington, Department of State, 1947)

3 Keynes, *op. cit.*, p, 67.

4 *Ibid.*, p. 21.

5 The fate of the populations involved in the new colonial arrangements issuing from the war is the fate which might be expected. The former victims of aggression and serfdom take their place as equals under democracy; *Cf.* the provisions made by the United Nations and the United States for the trusteeship of the Pacific Islands. "In discharging its obligations under…the Charter [of the United Nations] the administering authority shall guarantee to the inhabitants of the trust territory freedom of conscience, and, subject only to the requirements of public order and security, freedom of speech, of the press, and of assembly; freedom of worship, and of religious teaching; and freedom of migration and movement." It is of interest to note that in the first draft of this provision the phrase "subject only to the requirements of public order and security" preceded the phrase "freedom of conscience," The United States delegate to the United Nations called for the revision of the first draft and stated: "The significance of this perfection of the article is that it moves up freedom of conscience so that it will not be subject to the requirements of public order and security," (Robert R, Robbins, "Two Aspects of Trusteeship," Department of State, Washington, 1947).

6 Thorstein Veblen, "The Economic Consequences of the Peace," *Political Science Quarterly*, XXXV (September 1920) reprinted in *Essays in Our Changing Order* (New York, 1934).

Chapter XIII:
The Theory of Depression and Totalitarianism

Economic inequality moves nations to "desperate expedients" which wind up as wars. Wars involve the creation of national debts and new productive capacity which between them make depression inevitable again. War and depression, in other words, are the system of privatives and economic inequality looked at over time.

This system also involves revolution. The United States itself has experienced armed outbreaks (usually from farmers) in every major depression from the 1780's to the 1930's.[a] At the moment the peoples of the West are primarily concerned not with these agrarian revolts but with the growth of "communism" in Europe.

A great deal depends on what form this concern takes. We know that American intervention in Russia after the first World War did not noticeably stay the excesses of revolution. On the basis of non-Newtonian researches we can also say with fair certainty that a program of "containment" which accepts the old unregulated capitalism will not halt the present revolution.

The theory of depression and totalitarianism from which stem these predictions, now quite general,[1] is a product of the last depression. The case of Germany in particular has affected every economist who has thought on this subject. And in their thinking the non-Newtonian theoreticians have found much to ponder in the statements of the totalitarian revolutionaries themselves.

In 1936 Lawrence Dennis, the American Fascist, said that the trouble with those economists here denominated Newtonian was this: they assumed that a mortgage could always be foreclosed.

Dennis meant that the whole Newtonian attitude on social and economic questions confuses a set of institutions with the ultimate structure of the universe. The particular set of institutions called "capitalism" was coming under terrific strain in the thirties. It was all very well to say that people could pay off mortgages and debts if they would make the necessary sacrifices. "But people won't make the necessary sacrifices. They will rather make these sacrifices for war or revolution."[2]

It is important for us to remember Dennis' diagnosis of a world of "closing markets, in which communism and fascism become inevitable" if the economic meaning of the European totalitarian movements and the American movements he predicted would rise from the next depression are to be understood. The economic meaning of these developments is simple. They are the consequences of the social conditions of depression.

This is now a commonplace. Everyone knows that unemployment makes the way of demagogues easy, and that jobless men are good storm-troopers. Indeed the social meaning of depression has been most clearly demonstrated with reference to unemployment, preeminently by Sir William Beveridge. All students of Germany and Italy after World War I are in agreement that the populations there preferred totalitarianism "over what they had before: unemployment, humiliation, and liberty."[3]

The preference for jobs over freedom—or, rather, the desire to be rid of the freedom to be unemployed—is recognized to have consequences threatening the basic values of western life. The most advanced segments of the body politic may turn to regressive political solutions in the face of tremendous economic pressure. A commentator on Italy speaks of skilled workers there as "soured on democracy by the war and the consequent unemployment and the high cost of living."

In such a situation "they saw the state as a mask for capitalism." They therefore helped Mussolini, not so much actively as by refusing to support the representative government in power which had allowed unemployment.[4]

Much also has been written about the destruction of middle class morality in the throes of economic crisis. Perhaps the clearest accounts of the psychological mechanisms through which economic misery provides the forcing ground for "natural bellicosity" has been given by novelists. In *Goodbye to Berlin* Christopher Isherwood chooses a single incident to describe the impact of depression upon ordinarily peace-loving citizens.

> ...There was a crowd outside the branch bank...The iron lattices were drawn down over the bank windows. Most of the people were staring intently and rather stupidly at the locked door. In the middle of the door was fixed a small notice, beautifully printed in Gothic type, like a page from a classic author. The notice said that the Reichspresident had guaranteed the deposits. Everything was quite all right. Only the bank wasn't going to open.
>
> A little boy was playing with a hoop amongst the crowd. The hoop ran against a woman's legs. She flew out at him at once: "*Du, sei bloss nicht so frech!* Cheeky little brat! What do you want here!" Another woman joined in, attacking the scared boy: "Get out! You can't understand it, can you?" And another asked in furious sarcasm: "Have you got your money in the bank, perhaps?" The boy fled before their pent-up, exploding rage.[5]

An important point which is sometimes overlooked, however, is that a similar psychological atmosphere becomes prevalent during depression even among able and successful businessmen. Defenders of capitalism sometimes fear a loss of initiative if that system is reformed; actually it is capitalism as we now know it which is the greatest foe of initiative—because it breeds depression where no initiative can flourish.[6]

"The very existence of the Nazi regime in Germany," Mr. Einzig says, "is in itself an indictment of the system of unorganized liberal capitalism inherited from the nineteenth century. Had it not been for the breakdown suffered by that system in 1931, Hitler would never have risen to power.[b] It was the economic depression and the financial crisis, bringing the figure of unemployed in Germany to 6,000,000, that gave Hitler his chance. Utter lack of planning on the national and international scale was mainly responsible for the series of crises between 1929 and 1933." (*Ibid.*, p. 35.)

This is the case because customers are necessary for initiative. At the risk of giving devils more then their due, we can imagine that German businessmen were glad to see Hitler's overthrow of their obstacles to investment and expansion, even without assuming that they were reactionaries financing a counter-revolution. Whatever a businessman's politics, the *Wehrmacht* was a welcome customer.

Under Hitler "pressure was brought to bear upon employers to employ workers even if the condition of industry did not justify it." In such a situation "enthusiasts ventured upon investments that would have been rejected as impossible in normal times." The whole story of the passing of traditional business investment policies, so deadening to initiative in time of depression, is told by a message from a German manufacturers association to a Nazi leader in 1933. The manufacturers wrote that they had "determined emphatically to urge all the industries within their control to let no petty hesitations prevent their engaging fresh personnel over and above," and here we catch a last glimpse of the dying tradition, "over and above what is necessary and economical."[7]

It used to be thought that fascism and Stalinism were distinctively European phenomena. More and more students are today inclined to regard both forms of totalitarianism as endemic to western society. Very suggestive is the appearance in the American hemisphere of ideologies which in the midst of economic distress claim wide followings, even in the United States. These developments lead to the conviction that the most serious threat to democracy at the present time is "the existence within our own personal attitudes and within our own institutions of conditions which have given a victory to external authority, discipline, uniformity, and dependence upon The Leader in foreign countries."[8]

This recognition that fascism is "a political phenomenon which appears wherever certain economic and social conditions prevail"[9] is by no means general. The lack of recognition stems from two sources, apparently connected. The first source is the Marxists. Under the guise of an economic interpretation of history they have "explained" fascism in a fashion which is so unsatisfactory that non-Newtonian explanations have found it difficult to get a hearing. The Marxists deserve credit for pointing to the imbalance between production and distribution which inevitably brings about economic crisis. They have also indicated the revolutionary—and counter-revolutionary—political situation which economic crisis affords, but here their social analysis of depression gives way to dramatic fantasy.

Viewed dramatically by Marxists, fascism is a plot. It is a method "adopted by the capitalist class when the threat of the working class to the stability of monopolized capitalism becomes acute."[10] Obviously this explanation does not explain. What needs to be explained is not so much why capitalists adopt fascism, although that is far from clear, but why laborers and shopkeepers do. To this department of non-Newtonian theory of war, depression, and revolution the Marxists have made no contribution.[11]

The second failure to recognize the contribution of capitalism to fascism stems from the first with its melodramatic and inaccurate explanation of this contribution. Disgusted by Marxist oversimplification, and buttressed in their arguments by Marxist mistakes of fact, Newtonian economists have taken the offensive against all economic interpretations. The growth of totalitarianism, the struggles of rival imperialism and above all war are removed from the roster of the achievements of capitalism. The removal is accomplished by common sense. It is held that "economic interest is relatively unimportant as a cause of war" because "the parties could almost always gain more through peaceful exchange and cooperation." We are reminded that "colonial exploitation is not usually profitable." The palm for the troubles of the times goes to "religious differences," "cultural competition," and "sheer partisanship."[12]

Such explanations overlook the economic climate in which religious differences, cultural competition, and partisanship change from their ordinary passive expression into instruments of class and national violence. This climate brings out desperate expedients, not rational solutions. It is true that war or revolution or depression is to no one's economic interest; this does not mean that all three do not stem from economic conditions.[c] As even the National Association of Manufacturers is coming to recognize, there is a connection between economic fluctuations and totalitarian upheavals, a connection between depression and revolution.[d] "It is only natural," the association reminds us, "that those who are hurt by…depression should grasp at…a proclaimed 'solution' and to aid demagogues by giving them a public support which it would be quite impossible for such suggestions to attain in periods of prosperity."[13]

It may be that this belated recognition by the National Association of Manufacturers that their own policies have had something to do with the growth of totalitarianism is a sign of a general awakening. Surely there is much on the conscience of capitalist peoples. Citizens generally are aware that they have cheated somewhat in their interpretation of the events of the last ten to fifteen years. Hitler and Mussolini are of course not to be exonerated; but part of the blame for the conditions leading to the second world war falls on the western democracies.

Moreover the west contributed more than the depression conditions which helped Hitler's rise to power. The workings of the free enterprise system between the two wars furnished ideological ammunition to the demagogues of Europe as well. Undoubtedly the material ammunition was the more important, since after all the facts of life are the most convincing arguments. Certainly the conditions of mass unemployment and economic misery which prevailed in Germany throughout the whole interwar period and especially after 1929 were Hitler's strongest speeches. He could truly say that if these conditions were not deliberately brought about by capitalism, at least the capitalist nations could not prevent them. But only slightly less important than the economic distress for Hitler's success in Germany were the reports on the capitalist world which Hitler was able to give the German people, manipulating the feelings aroused for his own imperialist purpose.

"You all know the situation in which we found ourselves eight years ago," Hitler told an audience in December, 1940.[14] "Seven million were unemployed. About six and one-half million were on part-time work…agriculture faced ruination…trade and industry were at a standstill and shipping was paralyzed." In 1932 "It was easy to foresee the time when the seven million unemployed would necessarily become eight, nine, or ten million."

It is very significant that the first thing Hitler pointed to in his consideration of "the situation in which we found ourselves eight years ago" was the fact of mass unemployment. It is significant for two reasons. First, unemployment is of immense personal importance not only to every person unemployed but to every citizen in a society over which the threat of unemployment hangs. Second, mass unemployment is indefensible; there is just no excuse for it, and Hitler was able to capitalize on this obvious absurdity which the apologists for free enterprise excuse and rationalize with their talk of "temporary frictions" and "necessary readjustments."[e]

We must not underrate even Hitler. In this situation he was, as he claimed, making "an appeal to reason." No one is taken in by the Nazi claims that the national and social doctrines of the Third Reich were "scientific." But to fail to understand that Hitler's recovery and reemployment program was in many ways an appeal to reason is to miss the point of Hitler's success completely. Idle machines and idle men are so patently ridiculous that by contrast National Socialism makes sense.

In addition to capitalizing on the internal condition of Germany Hitler was able to remind his hearers of conditions in the outside world, and again to good effect. Over and over again, as everyone knows, he urged "the elimination of foreign oppression as expressed in the Treaty of Versailles." Here Hitler the rabble rouser was furnished unbeatable arguments by the signatories themselves; he used American and British phrases to express these arguments. The world, Hitler said, is unequally divided, "American observers and Englishmen have found a wonderful expression for this fact: they say there are two kinds of people—the 'haves' and the 'have nots.'" Hitler felt he belonged to the latter category. "All my life I have been a 'have not.' I…have always fought exclusively for them."

There has been a great deal of debunking of this idea of Hitler's, to the effect that complaining of the unequal division of the world and Germany's consequent need for *Lebensraum* while at the same time encouraging population increases by any and all means is somewhat contradictory. But this criticism misses the point. It was not so much the "have not" side of the picture that Hitler was able to utilize but the undeniable fact of the mess that was being made of things by the "haves." No one has any illusions about Hitler as a representative of the "have nots." Nevertheless he was able to use the economic situation in the "have" countries to effect a revolution in Germany. In the Anglo-French world, audience after audience in Germany heard, democracy, "which means the rule of the people by the people," is claimed to be the economic system. But if one looks at these countries. Hitler said, one sees that "it is actually capital that rules; that is, nothing more than a clique of a few hundred men who possess untold wealth…"

Are these nations "free?" If so it is a peculiar kind of freedom that they have. "They say: 'Here we have liberty.' By this they mean," Hitler said, "an uncontrolled economy, and by an uncontrolled economy the freedom not only to acquire capital but to make absolutely free use of it. That means freedom from national control, or control by the people both in the acquisition and in its employment. This is really what they mean when they speak of liberty."

Now we know what Hitler meant when he opposed the Nazi system of "National Control or control by the people" to the "uncontrolled economy" of the "Anglo-French world." He meant to identify the national control of his own clique with "control by the people." Yet the fact that under free private enterprise corporations are controlled neither by the national government nor by the people is of tremendous importance, and exposure of this fact has tremendous popular appeal.[f] But it was not just the structure of capitalism with its absence of popular and national control which allowed the alternative of National Socialism to "catch on" with the German people. Above all, as Hitler never tired of pointing out, the "free" system does not deliver the goods. This was true even of the richest "have" nations.

There was the example of England, which controlled sixteen million square miles of *Lebensraum*, operating under an economy of "freedom." "One might well believe that in these countries of liberty and riches, the people must possess an unlimited degree of prosperity. But no! On the contrary, it is precisely in these countries that the distress of the masses is greater than anywhere else." This is true not only of the colonies, where one might expect poverty. The people of Great Britain are poor even though in India alone "a hundred million colonial workers with a wretched standard of living" must labor for them. "One might think perhaps that at least in England itself every person must have his share of these riches. By no means! There is poverty—incredible poverty—on the one side, and equally incredible wealth on the other. They have not solved a single problem."

Capitalist failure to solve the problem of unemployment and underproduction: this was the strong point of the *Lebensraum* argument. Western democracy was at this time putting itself forward as the salvation of the down-trodden peoples of the world. Hitler could make this promise of American life in particular, a way of life which for decades had been held forth as a hope to the peoples of the world, seem hypocritical and illusory. "A nation which could provide work for the whole world must acknowledge the fact that it cannot even abolish unemployment at home." Year after year "rich America" has 10 to 13 millions of the jobless.

Hitler used such facts to condemn democracy and to weaken the German aspiration for democracy. It was self-evident, he said, that "where this democracy rules the people as such are not token into consideration at all." Decisions are made instead by "a few hundred gigantic capitalists who own all the factories…and through them control the people."

We do not have to take Hitler's word that such conditions are a disgrace. Everyone knows that they are a disgrace, and that is why Hitler's appeal was so powerful. In the most literal sense his proposals made not only a demagogic but an intellectual appeal. The people as a *whole* "definitely suffer under a system where most of them work long hours—when they can find work—and a small minority clip coupons." A system which compels one man "to work and toil for a whole year in return for ridiculous wages while another jumps into an express train once a year and profits enormous sums" does not have to be made out to be unjust; it *is* unjust. Perhaps it was Hitler's constant reiteration of such injustices which accounts for the opposition to him which developed in the "Anglo-French world." But what is harder to figure out is how some coupon clippers in this world looked with admiration at Hitler's program and longed for a counterpart in their own countries. They must not have read his speeches!

Nevertheless this question of justice was not the primary factor in Hitler's rise to power. His strongest case was the inefficiency of capitalism. It is true that he denounced capitalism as unjust because of its inequality. But he also said that "when an economic system is not capable of feeding and clothing a people, then it is bad." This is true "regardless of whether a few hundred people say: 'As far as I am concerned, it is good, excellent; my dividends are splendid.'" Concern with dividends the National Socialists rejected as mistaking paper phenomena for economic realities. Concern should be with production, not with dividends: the latter, the Führer said, "do not interest me at all." And here he took a dig at his British and American tormentors. The fact that the Nazis drew the line when it came to dividends had caused the capitalists of the world to say "well, look here, that is just what we mean, you jeopardize liberty."

Hitler did not deny this. "Yes, certainly, we jeopardize the liberty to profiteer at the expense of the community. …In my eyes a six percent dividend is sufficient. Even from this six percent we deduct half and, for the rest, we must have definite proof that it is invested in the interest of the country as a whole. …No individual has the right to dispose arbitrarily of money…"

It was because of this program of the Nazis, Hitler insisted, that the capitalists of the world opposed Nazi encroachment. "That other world says: "If we lose, our world-wide capitalistic system will collapse. For it is we who have hoarded gold. It is lying in our cellars and will lose its value. If the idea that work is the decisive factor spreads abroad what will happen to us? We shall have bought our gold in vain."

No one is under any illusions as to the meaning of Nazi encroachment. If the liberty to profiteer was abolished in invaded countries other liberties went down as well. When Hitler took away the rights of individuals "to dispose arbitrarily of money" no one thinks that the investments he decreed—in the armaments industry—were "in the interests of the country as a whole." Hitler's system was no less arbitrary than the capitalist.

The point is that the Nazi system at least avoided indefensible unemployment of men, machines and resources. This was its strength with all classes in German society, It was not that the Hitlerian program was strong logically, but that the capitalist program was so weak: even the mystical thinking of the Nazis made more sense.[15]

Notes

1 *Cf., e.g.*, Chester Bowles, "We Need a Program *For* as Well as *Against*. Chester Bowles says America must foster real reform abroad, not simply oppose communism," *The New York Tines Magazine*, April 18, 1948; Fritz Sternberg, *How to Stop the Russians—Without War* (New York, 1948), which draws a great deal on *The New York Times* and the *New York Herald-Tribune*.

2 Lawrence Dennis, *The Coming American Fascism*, (New York, 1936) pp. 6, 69.

3 Stephan Raushenbush, *The March of Fascism*, (New Haven, 1939) p. 53.

4 *Ibid.*, p. 169.

5 Christopher Isherwood, *Goodbye to Berlin*, p. 57, in *The Berlin Stories* (New York, 1945).

6 The effect of German conditions in the thirties on German business leaders is discussed in Calvin B. Hoover, *Germany Enters the Third Reich* (New York, 1935) and Paul Einzig, *Hitler's New Order in Europe* (London, 1941). The latter volume is also remarkable for its prescient analysis of the role of Western capitalism in bringing about these conditions, an analysis which first appeared in the *London Financial News*, by the way.

7 Konrad Heiden, *A History of National Socialism*, (New York, 1935), pp. 319-321.

8 John Dewey, *Freedom and Culture*, (New York, 1939), quoted in Erich Fromm, *Escape from Freedom*, (New York, 1941), p.5.; *Cf.* Raymond Gram Swing, *Forerunners of American Fascism*, (New York, 1935); Ray Miller, *Argentine Diary*, (New York, 1945).

9 John Strachey, *The Coming Struggle for Power*, (New York, revised edition, 1934), p. 261.

10 *Ibid.*

11 The "plot" theory has been criticized in the study based on interviews of the Führer's followers by Theodore Abel: *Why Hitler Came Into Power,* (New York, 1938).

12 F.H. Knight, *Freedom and Reform*, (New York, 1947) p. 585.

13 The Economic Principles Commission of the National Association of Manufacturers, *The American Individual Enterprise System*, (New York, 1946), V. 2, p. 965.

14 Speech at the Rheinmetall-Borsig armaments works in Berlin, December 10, 1940, selections from which are conveniently printed in *Introduction to Contemporary Civilization in the West*, a Source Book Prepared by the Contemporary Civilization Staff of Columbia College, Columbia University (New York, 1946) Vol. II, Pp. 1128-37. Subsequent quotations are from this source.

15 So much is true for the mystical thinking of the communists. J.M. Keynes tells of the prophecy of two "communist ironsides" that Russia would make more progress than the capitalist nations in the decades following World War I. "Having a regard to the natural wealth of Russia and to the inefficiency of the old regime," Keynes asked, "having a regard also to the problems of western Europe and our apparent inability to handle them, can we feel confident that the comrades will not prove right?" *Essays in Persuasion* (New York, 1932) p. 505.

Chapter XIV:
The Theory of Imperialism

The great advantage of the under-consumption explanation of war is the great advantage of all significant generalizations: it shows that a number of conditions stem from one condition, in fact *are* one condition. Three conditions of war have come in for analysis in non-Newtonian economic literature. The first has been the need on the part of capitalist nations for investment outlets for "surplus" capital. The second has been the need of these nations for market outlets for "surplus" goods. The third has been "unemployment and insecurity as they prevail in modern economic societies," unemployment and insecurity which make it possible "to induce the people to strive for symbolic goals as if they were primary goals, so that instead of butter they desire national prestige."[1]

All three of these conditions are seen by the underconsumptionist explanation as aspects of the one condition of economic inequality. Over-saving calling for overseas investment outlets and under-spending calling for overseas sales outlets are obviously two sides of the same coin, and mass unemployment and insecurity is the human meaning of over-saving and under-spending. The three causes of modern war are one cause.

This "economic interpretation of war" has not found acceptance among the majority of economists because of an old misconception. This is the fallacy popularized by Congressional committees to the effect that scheming businessmen, bankers, and munitions makers operate behind the diplomatic scenes to bring nations to the battlefield. This heroic theory has run into criticism from students who point to the well-known fact that businessmen are peace-loving—nay, that they dread war like the plague. Diplomats and generals spend much of their time trying to convince businessmen of threats to the national honor rather than vice-versa. Nevertheless, this criticism misses the point. It is true that diplomats and military men complain of the over-cautiousness of bankers and businessmen, but the "economic interpretation of war" does not deny this. Rather the importance of the non-Newtonian economics on this score is its description of a basic tendency under capitalism which operates irrespective of the intentions of the capitalists themselves. After all, depression is not desired by businessmen either. But this has nothing to do with the fact that nevertheless the activities of businessmen—or, rather, the thought-ways of the whole community which allow business control—bring on depression. So much can be said of the case of war.

Some of the criticism of the Congressional committee theory of war is, however, more to the point. In particular the Marxists, who have put this kind of theory into systematic form, have laid themselves open to error by generalizing from diplomatic incidents involving specific loans, railways, concessions, and so forth.

Wherever a small country falls behind in its interest payments on bonds held by investors in a large country, it is true that military intervention is possible. "German action in regard to Samoa, American action in regard to Haiti, British and German action in regard to Venezuela—such are cases in which…the leading role of investment interests seems reasonably well authenticated." In such cases, as Professor Lionel Robbins says, "Lenin's theory does correspond with the facts."[2]

Another type of "small war" in which the economic aspect is thus obvious and thus dominant is that waged for a specific concession. The Boer War centered around "the investments on the Witwater's Rand" and "pressure from their owners" caused the British Army to intervene; indeed, the initial raid on the Dutch "was planned by Rand capitalists." To this instance may be added the Texas "land speculation" revolution, the "pineapple revolution" in Hawaii, the revolution in Colombia planned in a New York Hotel room, which made good a speculation in Panama Canal stock, and many others.

Nevertheless, as many economists have pointed out, to find such hotel room conspiracies in the case of major wars is very difficult. Where they are found one must interpret them very carefully. There was an "investment interest" in the Russo-Japanese War of 1904, the lumber concessions in the Yalu area. But in this case "the economic interest was a mere blind." The pressure of investment capital proved to be "a pure disguise for the operations of mystical Russian imperialism." The businessmen at the scene were all military officers in disguise; the timber warehouses were barracks; the lumber roads were military roads. In short, "in the case of the Yalu concessions, the economic interests created by the financial operations was merely a screen for political ambitions having little or no connection with the returns in which high finance is interested."[3]

A similar situation characterized the Turkish-Italian war of 1911-12. Here the Marxist finger has been pointed to the Banco di Roma. But students of this situation have no difficulty in showing that "the annexation of Tripoli was projected by Italian statesmen long before the Banco di Roma had anything to do with the country." The Italian government "was anxious to find some offset to loss of prestige which it had experienced at the Battle of Adowa; and the occupation of Tripoli…offered a suitable opportunity. …In the inception of the enterprise…the role of finance was essentially that of agent." Much of the same sort of thing characterized the Baghdad Railway concessions. "It is well known that the German bankers originally involved were highly reluctant to apply for the concessions and only proceeded to do so after strong pressure from the German government." Examination of such wars convinces Professor Robbins that in each case "the underlying motives of the government's concern were predominantly diplomatic and strategic."[4]

Now this conclusion is important for our understanding in several ways. In the first place, it keeps us on the lookout for such "economic excuses" on the part of the American government today. So far are we from distrusting imperialism that it is universally an argument for the Marshall Plan that it will provide a market for American business. Yet the whole "subsidy" program is obviously part of the containment of Russia, which is a military and strategic operation. Secondly, for our general understanding of the nature of business, it is well to remember that diplomatic, economic, and military activities are very difficult to disentangle. Arabian petroleum reserves, for instance, are essential to the Standard Oil Company, but they are also essential to the American General Staff, and a case may be made out for their crucial role in the security of every American citizen. A question then arises: are measures looking toward the security of American petroleum concessions—measures such as the aid to Greece and Turkey—

military, economic, or political? Obviously they are all three and just as obviously it is almost impossible to draw a line between business activity and military activity, despite Herbert Spencer.

Notwithstanding the failure of the crude Marxist theories of imperialism to account for modern large-scale war, there is a sense in which "the institutions of private property and the market, in their present stage of development, tend inevitably to breed international conflict," a sense in which "War is a by-product of the capitalist system."

War is a necessary by-product of the capitalist system because power is. As Professor Robbins says, "the most obvious phenomena of international relations—diplomatic maneuvers, ententes, alliances, war" are part of "a perpetual struggle for power—a struggle either to conserve power or to increase it." This conservation or increase of power is, in Professor Robbins' felicitous phrase, "the permanent implicit major premise" of all diplomatic language.

Even in the narrowest sense "military power involves the control of scarce resources" and thus "national power involves command of raw materials." From a military standpoint the ownership of oil deposits, important canals, and strategic railway systems have taken such an important place that Professor R.G. Hawtrey has concluded that "the distinction between economic and political causes is an unreal one. Every conflict is one of power, and power depends on resources." The principal cause of war is war itself.[5]

Nevertheless the explanation of wars as struggles for power only begins to solve the problem of war in the modern world. It may be quite true, and indeed it is of the greatest importance for understanding our present economic system, that political and economic causes are inseparable—that capitalism and feudalism are indistinguishable. Yet modern wars do arise in certain fashion. As Professor Robbins says,

> We may agree that the diplomatic struggle is a struggle for power. We may agree that all struggles for power involve the control of scarce resources. But this does not relieve us from proceeding to ask the questions. For what purpose is national power wanted? Are these purposes economic or non-economic in character?[6]

Modern wars do not have booty as their object, although some booty may be involved. The General Analine Corporation is very eagerly sought after World War II. Such cases aside, "it is not impossible to gain directly from aggression, even though no confiscation of property or imposition of tribute is involved." History has been filled with "acts of trade and navigation" which prevent the inhabitants of conquered territories from selling their goods and buying their goods in other markets than those of the mother country. This gain has not been "worth the candle," perhaps. This does not in the least deny that modern wars are of this nature. The point is this: however reluctant nations may be to go to war where the outcome is dubious, they *must* go to war when their national interests are threatened. It is this "defensive interest" which Professor Robbins finds to be the explanation of modern war. "There may not he much to be gained *directly* by a restrictionist imperialism. But there may be much to *lose* from the restrictionist policy of other powers."

> Let us suppose that Great Britain were defeated in war and the other parts of the Empire were to be annexed by a power which proceeded to surround these territories with restrictions on trade with other areas. That surely would be a catastrophe of the first order of magnitude, a catastrophe affecting not merely the incomes of particular groups of property owners and workers, but the income of the nation as a whole. Markets which before were open to us, would now be closed. We should sell our goods, and hence the services of our factors of production, on terms less favorable than before. A general reduction of the standard of living would be inevitable.[7]

Here we have "the outlines of a theory which affords a much more plausible explanation of the economic causes of the diplomatic struggles of the modern period than any other we have yet examined." Above all this explanation "fits the facts of the scramble for colonies." Where domestic markets are limited foreign markets are prized, and that is why colonial expansion is competitive. "For any one power, if any of the others…'got there first,' there was a loss of potential markets." It follows that, the Marxists to the contrary, "there was a real national interest in expansion; an interest, be it noted, not confined to the propertied classes. Working people, equally with capitalists, stood to lose from the narrowing of potential markets."[8]

Professor Robbins does not conclude from this analysis that the root cause of war is "the institutions of private property and the market, in their present stage of development." He does not so conclude, he says, because war has existed under all previous and present forms of society other than capitalism. The ultimate root of war is therefore "the existence of independent national sovereignties. Not capitalism, but the anarchic political organization of the world is the root disease of our civilization."[9]

Surely it is profitable to put the matter just the other way round. What stands in the way of replacing "the anarchic political organization of the world" but "clashes of economic interests"? National sovereignties themselves are restrictionist policies: it is no accident that the rise of capitalism and the rise of the great national states are contemporary. The national state is "the institutions of private property and the market, in their present stage of development." The very concept of "market" implies national sovereignty. The whole apparatus of national states and their military establishments for maintaining and extending and defending the "open door" are the Sales Departments of capitalism.

The reason that Professor Robbins is at such pains to overlook the fact that national sovereignty is a by-product of capitalism is that this fact involves condemnation not of international affairs but of domestic institutions. Most of us fear such condemnation like the plague. It is easy to be "liberal" when it comes to the "anarchic political organization of the world." It is somewhat more difficult to sneer at the anachronistic social organization of the individual nations of the world, a social organization which is responsible for the existence of individual nations.

For this reason Professor Robbins and most other economists have been unable to appreciate the under-consumptionist doctrine of Malthus, Sismondi, Rodbertus, and Hobson. Because all these people point to the inequality of income distribution—the class nature of society—their analyses have fallen on deaf ears. It is probable that the very carving up of the world into markets which Professor Robbins so deftly describes will lead him eventually to "put the finger" on economic inequality as it has so many other economists, among them his eminent fellow Britons Lord Keynes and Sir William Beveridge. For the growth of world technology and the persistence of radical economic inequality are incompatible. As Rodbertus said exactly ninety years ago:

> Because productivity continually rises in the home market and the purchasing power of the people remains the same, trade must find an outlet in external markets. … Every new market thus found means a suspension of the central social problem… but, because the world is limited, the acquisition of new markets must one day cease. …Then the social question will have to be solved.[10]

Notes

1 Spiegel, Henry W., *The Economics of Total War* (New York, 1942} pp. 27-8, quoting, in the last part of the sentence, Karl Mannheim's analysis of the psychology of insecurity: *Man and Society in an Age of Reconstruction* (New York, 1940).

2 Robbins, Lionel, *The Economic Causes of War* (London, 1939) p. 45.

3 *Ibid.*, p. 48.

4 *Ibid.*, p. 50

5 R.G. Hawtrey, *The Economic Aspects of Sovereignty*, p. 120, quoted by Robbins, *op. cit.* p. 64.

6 *Ibid.*, p. 65.

7 *Ibid.*, pp. 78-9.

8 *Ibid.*, p. 81. It also follows, the Marxists again to the contrary, that a domestic broadening of markets is to the national interest—to the interest of capitalists as well as laborers. Under-consumptionists have drawn the ire of Marxists precisely because they insist on this point and the corollary that, once this is realized, even vested interests will back reform of capitalism looking to greater equality. Thus Lenin writes sarcastically of Hobson (*Imperialism*, p. 101) that he made "an appeal showing the need to 'raise the consuming capacity' of the people (under capitalism!)" Similarly M.H. Dobb attempts to refute the under-consumptionist position by saying that he never heard of "any capitalist State seriously treating a policy of raising wages at home as an alternative to the sweets of Empire." In doing so the capitalists are acting in their self-interest: "It may be said that… property is persistently blind to its own best interest, even when this has been repeatedly indicated to them by under-oonsumptionists. …But one would need much more evidence than any that has been offered to convince one that so universal and persistent a contradiction between action and interest can be true." —*Political Economy and Capitalism* (New York, 1937) pp. 271-2.

9 *Ibid.*, p. 99.

10 Karl Rodbertus, *Die Handelskrisen und die Hypothekennoth der Grundbesitzer* (1858), quoted by Robbins, *op. cit.*, p. 25.

Chapter XV:
The Fields of Economics

Clarification of problems works two ways. In the first place, increased insight into the whole of the subject-matter of a discipline improves the focus in which the sub-disciplines are viewed. In the second place, increased knowledge of specialized subject-matter brings about revolutionary general insights. The two processes obviously go together and are cumulative.

Both processes have been going on in economics. Research in all the special fields of economics has been stimulated and "pointed" by the gradual recognition of the over-all pattern into which modern wars and depressions fall. And in turn the knowledge derived from the special researches in "money and banking," "labor economics," "public finance," and "international trade" has been incorporated into the general theory. That the two lines of investigation converge and mutually support one another is no accident: whether economists have gone to their work with the broad interests of the philosopher or with the fine-tooth comb of the specialist, both have had to deal with the same refractory case-material, and it is this case-material which has ultimately dictated their formulations.

Because by and large the same economic problems have dominated the Western world for the past three hundred years, the generalizations of non-Newtonian economics are found throughout economic literature. This is true of even the "purest" Newtonian theory. But the direction of special studies by the character given to world economic events by under-consumption has never been explicitly recognized. As Professor Wesley Mitchell has pointed out, the idea is generally accepted that the study of business cycles, for instance, is influenced by received economic concepts. But the contrary view, "that ideas developed in the study of business fluctuations may lead to reformulations of economic theory, still strikes most economists as strange."[1]

The same is true of the other special fields: while the fact of influence is obvious, the idea is unfamiliar, and for this reason the revolution in thinking in the special fields is not proceeding systematically but by force of circumstance.

1. Economic History

It is the essence of the non-Newtonian economics that its principles are generalizations of historic experience. All the specialized fields recount slices of economic history. Economic "theory" itself consists of historical experience expressed in the most general terms.

Yet there has always been a need for coordination of the results of historical researches in the special fields and their presentation in chronological order. This is the task at which the economic historians have been engaged since Adam Smith.

Moreover, as the mention of Adam Smith should remind us, economists have all along found patterns of development in economic history. There are regularities in what at first sight seems to be a ceaseless flow of unrelated events. This is what commentators on Adam Smith have in mind when they say that history and theory are conjoined in *The Wealth of Nations*.

Two forces have dominated economic history since Adam Smith's time. One of the greatest English economic historians indicated these forces when he said that "the capitalist system is commonly associated with two things: large-scale production and industrial friction."[2] These two things are related, and it is the story of their relationship in all its striking drama and contour which economic historians tell.

That story, in brief, is this. The capitalist nations have possessed for three hundred years an advanced system of production side-by-side with a feudal system of distribution. A chronic tendency for production to outrun consumption has been the result, and with this tendency "industrial friction."[a]

Friction has arisen in many ways. For one thing, societies having difficulty in disposing of the large-scale production typically resort to forceful trade with other, less "advanced" societies. This "dumping" leads to military adventures both with colonial peoples and with rival capitalist nations.

For another thing, there are constant internecine "frictions," arising from the fact that the control of the large-scale production of the modern age is always a differential control. Access to the instruments of production has been sanctioned only on the terms of the owners of these instruments, who have moreover refused access to other members of the community often at conspicuous loss to the communal welfare. Here modern times are like ancient times.

> The substantial fact upon which the strategy of ownership converges is… usufruct of the industrial arts. …The tangible items of property to which the claims of ownership come to attach will…vary from time to time, according as the state of the industrial arts will best afford an effectual exploitation of this usufruct through the tenure of one or another of the material items…
>
> The chief subject of ownership may accordingly be the cultivated trees… the tillable land…fish weirs and their location…domestic animals…or it may be the persons of the workmen. …With an advance in technology of such a nature as to place the mechanical appliances of industry in a peculiarly advantageous position…these mechanical appliances may become the typical category of industrial wealth…[3]

Various consequences flow from this "strategy of ownership" converging on the communal technology. Events recur, and recurring events are institutions. For this reason the economic history of the West can also be considered an account of the principal institutions of capitalism. Here first place has always been accorded depression, war, and revolution, implicitly in the treatment even of Newtonian students. But the other typical institutions of capitalism have also come into the historical record.

Frictions involving racial and religious prejudice constitute one capitalist institution receiving more and more attention. Here there is general agreement that all the age-long "in group" predispositions back of prejudice receive their modern stimulus from the limited market and the consequent struggle for economic security and eternal threat of "cheap labor."[4] Another institution of capitalism is the control of thought. The suppression of opinion which has always characterized capitalism, especially in its hours of trial, is essential to the functioning of other institutions of "free enterprise." Extirpation of "un-American" ideas calling into question the ability of capitalism to avoid depression is necessary if the other institutions of capitalism (for example, depression itself) are to be retained.[5]

Another institution of capitalism is bad taste. So pervasive is the habit of rating things in their market bearings that this affects the work even of outstanding craftsmen. Just as the limitation of markets breeds racial unrest and intolerance of critical opinion, so it fails to provide that complete surrender to the material and the problem essential to both the mechanical and the fine artist.[6]

2. Money and Banking

The specialized study of money and banking is as old as economics itself. In fact, economics started out as treatises on money. This is appropriate because money is the instrument of control in a capitalist society and banks provide money. In terms of the institutions of capitalism, wars produce banks and the operation of banks unintentionally produce wars.

A bank is a mint. To possess a bank charter is to possess the privilege of legal counterfeiting. This is of course a very valuable privilege and for that reason it has always been fought for. Only chartered banks can create credit or money; if anyone else does it, this is illegal counterfeiting, and the penalty was at the time of the formation of the first great modern bank, the Bank of England, as high as death.

The stock-holders of a bank and their friends use the minting privilege to engross the valuable resources of the community. As Andrew Jackson said of the situation in his day, banking is a device to transfer the public domain to the hands of speculators. Inevitably this sort of thing leads to trouble.

In the first place, the enclosure movement led by any particular banking system necessarily fails to include all the enterprising members of the community. These enterprisers should like to get in on the enclosure movement themselves. They cannot because the very idea of enclosure means that most of the community must be, as a great man has said in another connection, "included out." Moreover, the very concentration of income which the ownership of banks entails means that business opportunities are limited.

In the second place, trouble occurs with the population at large. The right of banks to foreclose on mortgages, for instance, has never been accepted even in the United States. Not only Shay's Rebellion but the experience of American investors in collecting certain foreign debts after 1929 should remind us of a primary banking theorem: Creditors collect loans if they can; debtors pay off debts if they cannot get out of it.

Revolutions occur when the economic effects of the inequality both caused by banks and leading to their peculiar operations become oppressive. To fight revolutions governments confer additional banking privileges; if the revolutionists triumph, the government they establish in its turn sets up new banking cliques. In any case the upshot of war is a new banking system. There are also new technical facilities which the temporary removal of the threat of overproduction has allowed to come into existence.

Getting down to the work of peace, the banks have as their purpose the oversight of these technical facilities. In ordinary times the function of banks is to prohibit all technical progress which is not a "sound business proposition," This "rationing" of investment is of course accompanied by the rationing of employment and the rationing of consumption. The purpose of these money and banking arrangements, centering around the extension of trade, is to enforce the distributive pattern of the community in so far as this is possible.

In the last analysis the power of any banking system rests on armed force. The value of money is determined likewise. As everybody knows, the value of the greenbacks issued by the U. S. government during the Civil war fluctuated with the successes and failures of the Union arms, and American soldiers waded into Manila knee-deep in Japanese currency.

It has sometimes been said that the function of banks is to inflate speculative "bubbles." Certainly this is the case. But the cycle of boom and bust does not run its course without effect on the social fabric. As the American economist William B. Greene long ago pointed out, the problems of banking are indissociable from the problems of society as a whole.

The character of banking problems is such as to make it difficult to understand why a conflict has ever been presumed to exist between the self-interest of bankers and the general welfare. In restricting their loans to sound business propositions bankers inevitably make even these propositions unsound. The paper in their portfolios becomes worthless primarily because consumer loans are unsound, and consumer solvency is the first requisite for business and banking solvency.

The immediate consequences of the extension of credit for production and not for consumption are "fruitless and repeated applications for payment" by the bankers themselves. "The ultimate consequences are… insolvency, bankruptcy, separation of classes, hostility, hunger, distress, riots, civil war, and, finally, revolution."[7]

All this has come about because banks have a privileged legal position. Money can be created only by them. No man can pay his debts without his banker's permission. Thus bankers are "enabled to level a tax on all transactions…" In the exchange of commodities "money becomes the absolute king and the demagogue of commodities."

Greene delights to point out that a money economy is still a barter economy. Men barter their merchandise for money in order to have money to barter for other merchandise The one difference is that money is a commodity with special legal status. "Money is merchandise just like any other merchandise, precisely as the trump is a card just like any other card."

Under such a situation "Want, and its correlative, over-production" present so constant a threat to "every artisan's house and workshop" that the artisans are very grateful for the consumption of the rich. Under the heading of "A Parasite City," Greene discusses the economic significance of this fact. "Suppose 5,000 men to own $30,000 each; suppose these men to move, with their families, to some desolate place in the state, where there is no opportunity for the profitable pursuit of the occupations either of commerce, agriculture, or manufacturing." The people in the rest of the state "would have to pay to the capitalists of this city six per cent on $150,000,000 every year; for these capitalists have… this amount out at interest on bond and mortgage, or otherwise." Thus "These wealthy individuals may do no useful work whatever, and, nevertheless, they levy a tax of $9,000,000 per annum oh the industry of the state. ...The capitalists would have their choice of the best the state produces..."

> Now, how would all this be looked upon by the people of the commonwealth? There would be a general rejoicing over the excellent market for produce which had grown up in so unexpected a place, and the people would suppose the existence of this city of financial horse-leeches to be one of the main pillars of the prosperity of the state.[b]

Greene added that "there is no city in this commonwealth that comes fully up to this ideal of a faineant and parasite city; but there is no city in the state in which this ideal is not more or less completely embodied."

3. Public Finances

The fact that banks are set up by governments and exercise their powers only so long as governments retain military power indicates that public finance and private finance are scarcely separable. Yet there is a range of problems whose investigation constitutes the non-Newtonian field of "public finance" or "fiscal policy."

The purpose of government, as Adam Smith pointed out, is to protect the rich against the poor. We ordinarily think of this involving only the operation of the law courts and the army. Positive acts of government play their role as well.

These positive acts have traditionally been acts to redistribute income. Governments have laid taxes on the masses and used the proceeds to establish pension lists.

Outstanding among these pensioners have always been the owners of the national debt. The primary issue in the study of public finance has always been the national debt. The problems of the field have arisen from the forays, political and economic, in which the debt-holders and the taxpayers have from time to time engaged.

Public debts, like banks, are inseparable from war. Most public debts have been created by war, for reasons which Adam Smith well knew. Governments borrow money because they are unwilling to finance wars out of current income[c] "for fear of offending people, who by so great and sudden an increase of taxes would soon be disgusted with the war."[8]

Deficit financing is often the source of the large fortunes of modern times. Persons with pensions become understandably loyal to the treasury which pays these pensions. Henry George once quoted William H. Vanderbilt on this point. Vanderbilt declared that a national debt ought not to be paid off but increased because it gave stability to the government, "every man who gets a bond becoming a loyal and loving citizen."[9]

Moreover the pensions of modern governments like the patents of nobility of former regimes are hereditary. The result is that the burden of the debt is transferred to future generations. This amounts to a man paying his grandfather's debts, something which is not possible in the case of private debts. Since debts are usually contracted to crush local or colonial rebellions or to engage in costly foreign wars it is not, George concludes, "asking a man to pay a debt contracted by his great-grandfather; it is asking him to pay for the rope with which his great-grandfather was hanged or the faggots with which he was burned."

The other principal problem of public finance has been that of the effect of governmental expenditures and receipts upon economic prosperity. Economists since the time of mercantilism have noted the stimulating effects of government taxation when the proceeds are paid out again for the creation of public works.

The king, Thomas Mun said, should exert himself to create rich and powerful subjects instead of laying up treasure in his coffers. He should make ships of war "with all the provisions thereunto belonging"; build and prepare forts; "buy and store up corn in the granaries of each-province…to serve in occasion of dearth"; maintain in his pay colonels, captains, soldiers and the like, provided with appropriate armor, shot, ordnance and horses. In all this the sovereign should take care that everything be made out of the material and manufacturing of his own subjects, "For a prince…is like the stomach in the body, which if it cease to digest and distribute to the other members it both no sooner corrupt them but it destroys itself."[10]

4. Labor Economics

"Labor economics" becomes more and more a subdivision of general economic theory in the new economics. Emphasis is placed on income distribution as it is affected by labor organizations. It is recognized that the restrictive policies of unions are reactions to the limited market even as are those of business. Just as the unequal distribution of income is the root of these restrictive practices, so these practices in turn affect the distribution of income.

In the old days Newtonian economists were accustomed to treat the demands of unions for increased wages, shorter hours, and moratoria on technological progress as immoral. The sum of labor economics was, appropriately—appropriate, that is, because of the admiration felt by economists for captains of industry—a series of injunctions. These injunctions took the form of saying: Don't ask for higher wages, don't restrict your production, don't oppose the spray gun, the Linotype, and the jukebox. The grounds for these don'ts were by and large on rational, or at least on pseudo-rational grounds. Looking at these demands from the point of view of the individual employer—that is, from the baseline of increased costs—the labor economist saw them as resulting in reduction of employment, production, and the standard of living.

All that is passé now. For one thing, the new labor economics is more concerned with explaining what the unions do than with fussing at them for what they do not do. Theorems are replacing injunctions.[11] Moreover, the facts of life are against the old pseudo-rational justifications for the injunctions. The closed shop obviously does not cause unemployment since the periods of highest union organization are also periods of highest employment. Open shops and depressions go together.

The new economics sees the effect of increased wages as an extension of the market. It views opposition to technological progress as a symptom of the limited market, as the best which can be expected under the circumstances in which unions find themselves, and probably stimulating to employment and production on the whole. In general the system of labor regulation is seen as a system of privatives—the unions are called "business unions"—with this significant difference. The results of labor privation are different from the results of the privation by businessmen not because of the greater virtue of unions but because of the different position laborers occupy in the income structure.

The upshot as far as public policy is concerned is that the shibboleth of "equality of treatment" for capital and labor has become obsolescent—one might say, technologically obsolescent.

It is for technological reasons—that is, for reasons of keeping the nation's productive machinery running at full capacity—that the shibboleth of "equality of treatment" has been dropped in the realm of taxation. Taxation, the experts in fiscal policy tell us, should be "progressive"; the rich should be soaked and the poor left untaxed, even subsidized. Otherwise businessmen finding no customers will shut down their factories. For the same reasons of keeping the nation's productive machinery at work the labor economists no longer believe that capital and labor should be treated equally. The employer should be soaked in wage negotiations and the employee aided in his attempts to so soak his employer. This is a technical requirement, although it does go against the grain so far as the shibboleth of equality is concerned.

Some economists in partial extenuation of the attempt on the part of labor unions to "cut into" the profits of their employers point out that the wage-earners are merely reclaiming their own. Of course this assumes the whole Lockean system of "rights." The idea that laborers are entitled to the product of their labor is a dogma, but it makes more sense than the dogma that the capitalist is entitled to the products of their labor. Whatever philosophical sense the dogma makes, in a world continually threatened by "over-production" the economic sense is obvious.

5. International Economics

Economics began with the study of foreign trade. This study reflects the important, indeed crucial, role which foreign trade has played in the lives of western nations throughout modern times as a result of the social organization of these nations internally. Their external activities, almost all of which are incidental to or aspects of "foreign trade," are their internal social structures writ large.

The non-Newtonian manuals of foreign trade are coming to generalize these facts. Indeed, the Newtonian manuals did. The emphasis on free trade which characterized the latter from Adam Smith's day to recent times generalizes these facts as an expression of the peculiar world situation in which England found herself in the nineteenth century.

This is to say that the emphasis on "free trade" by English economists in the nineteenth century—like that of American writers today—was unconsciously if not self-consciously self-interested. As the German Friedrich List never tired of pointing out, free trade, despite the plausible arguments for its universal validity given by Adam Smith and his successors, was a *British* policy. It was not for Germany. What List meant when he called free trade a British policy was this: England already had her industry. In such a situation it was not necessary for her to keep keep out foreign manufactured goods by tariffs—there weren't any foreign manufactured goods in the first place and if there were, she could undersell their producers. On the other hand England was interested in free access to markets in other countries, and in preventing the exclusion of her exports from her foreign markets. Hence the "English" doctrine of free trade. From Friedrich List's point of view, of course, England's aim was to prevent the industrialization of Germany. This point of view has been expressed in every agricultural country in the world since his time, and was being expressed in the United States when List wrote, for precisely the same reason: the fear of British domination of world industrial production.

However their doctrines may have looked to foreigners, the British theorists in preaching the economic advantages of free trade were detailing the facts of life as far as their own country was concerned. But so were the economists preaching "protection." As J.M. Keynes has recently reminded us, the mercantilist position is not economically so unjustified as many economists have made out. Such policies protect not only home industries but also home employment, income, and consumption.

Stemming largely from Keynes' reevaluation but even more from Britain's changed economic position have been a crop of theories on foreign trade which expound "neo-mercantilism." These books have appeared mainly in England while, wonder of wonders, they have been accompanied by the emergence of "free trade" doctrines in the stronghold of protection, the United States! Of course the "conversion" of the United

States has not applied to our own domestic arrangements. The doctrine of free trade as of old continues to mean freedom of entry for *our* goods into *foreign* markets, not the reverse. Nevertheless, however consciously or unconsciously self-interested these divergent theories may be, they like their counterparts in the nineteenth century express the facts of life. The United States has the industry now; if Friedrich List were living today he would undoubtedly say that free trade is an American policy!

All these forays and counter-forays in the realm of special pleading disguised as economic theorizing are converging on a central position which sidesteps the old issues of protection versus free trade. While the old economic theories held up either free trade or protection as the *summum bonum*, non-Newtonian theory is not so paramountly concerned with either. They do not fill the forefront of discussion. This change in emphasis has come about for two reasons. In the first place both free traders and protectionists are coming to realize that the adoption of their favorite policies does not guarantee the solution of their problems. In the second place the logic of the discussion in both camps has taken the discussion beyond the boundaries of "foreign trade" narrowly defined, and stimulated investigation of the economic organization as a whole.

The failures of both protection and free trade have been so spectacular that adherents of both philosophies have gradually lost faith. The British recognize that not only were depressions common in England throughout the "golden era" of free trade, but that reliance on all-powerful free trade has somehow nevertheless brought them to, or at least failed to prevent, their present plight. Nor do the British economists see Britain's salvation in protection: the argument has moved beyond these two alternatives. In the meantime the Americans have learned a lesson or two themselves. They realize that the high tariff policy of the United States availed naught when it came to eliminating or mitigating the economic difficulties of the thirties. The Smoot-Hawley tariff of 1930 did not put America back to work! Conversely, there are few theorists in the field of foreign trade today who think that removal of tariffs in the United States and over the world would by itself usher in permanent prosperity. Some, of course, still devote their energies to the free trade crusade. This devotion is superficially justified by the fact that protection and scarcity have after all frequently coincided, particularly in the thirties. Nevertheless the fact that protection and the decrease in world trade went together after 1929 does not prove that the first caused the second.

> The fact (Ragnar Frisch writes) that...regulation and restriction occurred simultaneously with the great contraction in world trade, together with the fact that it must...be apparent to each individual exporter or importer that his particular business could be carried on more speedily and more easily if regulations did not exist, is responsible, it seems, for the development of a widespread belief that these various forms of regulation in themselves are... the cause of the contraction in world trade, and that therefore the abolition of these regulations is the crucial factor on which maintenance of world trade on a high level will depend.
>
> This conception...confused cause and effect. Undoubtedly there are certain types of restrictions which are undesirable from the viewpoint of increased world trade, and some advantage may be gained through negotiations with a view to abolishing them. But such negotiations do not go to the bottom of the problem, and there is a real danger of losing sight of the essence of the problem of world trade if too much energy and effort are concentrated on the abolition of the regulation aspect...[12]

The "third camp" position toward which foreign trade theorists are moving because of the recognition that the free trade-protection controversy confuses causes and effects and does not go to the bottom of the problem is one which says in effect: It does not matter whether countries have tariffs or not. What matters is that they have prosperity, and full employment. It is an axiom in Britain that so long as the United States does not fall into depression and drag the rest of the world along with it, its tariff policy, whether high or low, is a matter of secondary concern. And the other economists have made this point implicitly by devoting the largest proportion of their efforts to other issues than the hoary debate between free trade and protection. Like progress in most fields, progress in the field of foreign trade is occurring not by solving problems but by forgetting them.

This revolution in foreign trade doctrine (and simultaneously in foreign trade theory) has been brought about mainly by the course of events. It has just become obvious that neither of the old dogmas, however convincingly they could be buttressed with hypothetical examples, has proved efficient in practice. This failure means at the same time that the analysis of the forces conditioning economic prosperity was faulty, for the practical trade programs in each case have, if not stemmed from (probably the relationship is the other way round) at least been correlated with specific economic analysis. If the practical programs have lost their authority, the economic theories must share in the decline. In addition to this "obsolescence by history," as it may be called, the old theories have suffered "obsolescence by knowledge." A great deal of information has piled up in other fields of investigation which demands revision of the basic postulates of international economics whether these are "free" or "protectionist." This information describes a persistent condition in modern society which makes it inevitable that trade is not free and industries are not protected no matter which tariff policy is adopted by any given nation or by the nations of the world.

In essence this information comes down to saying: Nations are prosperous when they are at war. Their industries hum profitably and their trade is immense as long as the guns are booming. When these cease firing trade is no longer "free"—that is to say, continuous—whether the countries in question have tariffs or encourage imports. When the guns cease firing no industries find themselves protected, even those with the most powerful lobbies. *All* industries participate in slumps.

For this reason the emphasis in foreign trade analysis is shifting from formal freedom and formal protection to actual protection and actual freedom. The old "free trade" is not free; the old "protection" does not protect. Real protection of a nation's industries comes from the provision of adequate markets for their output, a market which war contracts provide. Real provision for free world trade is continuous demand which ensures the continuous flow of that trade. Just as full consumption is necessary if full production is to be achieved, it is necessary if the world's docks and shipping lanes are to be crowded.

There are few economists who believe that the full consumption which provides protection for industries and freedom in trade can come only from war and armament demand. There are a growing number who believe that the full demand which is essential for protection of our industries and that freedom of trade which can leap tariff walls and provide the environment in which they can disappear can come from private individuals, given a redistribution of income which lessens economic inequality. But nowhere in the picture of the new economics is there any room for theories which do not put the factor of demand uppermost when attempting to understand the international economic patterns of the past or attempting to devise more satisfactory ones for the future.

6. Corporation Finance

The field of "corporation finance" in economics has long labored under the difficulties which afflict the hybrid. Amid a mixture of a) generalizations about economic behavior, and b) timely tips for investors and businessmen, the books about "the financial policy of corporations" perhaps more than any other specialized literature have reflected what might be called the professional schizophrenia of economists. Study of the actions of the individual entrepreneur expressed in the entrepreneur's own terms has accompanied and typically interfered with study of economic change, even the sorts of change in which individual entrepreneurs are interested.

In contrast to all this the new theory of corporation finance relates the corporate aspect of the economy to other institutional behavior, especially to the institution of depression. In the process of synthesis and integration the institution of economic inequality has come in for the major role as it has in the other special fields.

The subject matter of corporation finance includes the floating of corporate securities, the fluctuations in the value of these securities, and the destruction of these values and the reorganization of the underlying properties.

The theory of promotion is conceived as part of the general theory of demand. Corporations come into existence if there is a demand for them: the judge is the investment banker or some other creditor, who exercises a sort of "natural selection"[13] over incipient new enterprises. Most promotions are rejected because they are not "sound business propositions."

A sound business proposition is one which is profitable—for which, that is to say, a market is foreseen. Unsound business propositions are those which, however sound from engineering or social points of view, are not in the judgment of men who know the matter best called for in the existing market situation. The floating of corporations, therefore, is in the last analysis a function of the market—which is to say, a function of the poverty of consumers. As such the result is a reduction in the "progress of opulence" to that rate which bankers with a solicitous eye to flooding the market and endangering existing investments determine. As a banker said, "Inventions are what make my securities insecure." Retardation of technological progress and economic improvement is thus a function of corporate "entry" which is itself a function of consumer demand.

Security prices are a function of their earning capacity. During speculative booms these prices may "get out of line" with earning capacity but the inevitable crash brings a re-rating of investors' portfolios. Price fluctuations follow more or less closely fluctuations in corporate earnings, actual or anticipated. Corporate earnings are in turn determined by sales. The result is that both corporate earnings and security prices advance when there is an extension of the market—above all when there is a war—and decline when the temporary expansion of purchasing power is dissipated. The speculation which enhances the boom is itself born of the concentration of income in the upper brackets just as the limited market which produces the bust is born of the obverse depletion of income in the lower, consumer brackets. The very fact that a great deal of income because of economic inequality deserts the goods market for the stock market means that the inflated security values must be deflated, for these values depend on a steady flow of income to the goods markets. In this sense the price rise causes the price fall.

Corporation losses and failure to pay interest and dividends—the typical results of under-consumption—commonly result in reorganization, combination, and concentration. The combination movement in corporation finance is a reflex of "overproduction," which is another term for the low prices which eventuate when the limited consumer market is flooded. The aim of combination is profit stabilization, to be achieved by restriction of output, an aim which unfortunately is doomed to disappointment because measures to accomplish it also restrict further the consumer market. "Reorganization" refers to the shifts in ownership which occur in a period of liquidation brought on by the poverty of consumers. Just as major changes in the pattern of economic power are brought about by wars so the minor convulsions of crises and depressions redistribute power to a lesser degree. The *nouveaux riches* in both cases have the poor to thank, and so do the *nouveaux pauvres*.

Notes

1 Wesley C. Mitchell, *Business Cycles: The Problem and Its Setting* (New York, 1927) p. 452, quoted by John S. Gambs, "The Alleged Revolution in Economic Theory," *Antioch Review*, Vol. VII, no. 3 (Fall 1947) p. 398.

2 Ephraim Lipson, *The Economic History of England* (London, 1931) Vol. II, p. 6.

3 Thorstein Veblen, *The Instinct of Workmanship*, (New York, 1914) p. 151.

4 *Cf.* The Report of the President's Committee on Civil Rights, *To Secure These Rights* (Washington, 1947) pp. 142-3, the reverse relation between under-consumption and discrimination being noted. "Discrimination in employment means inefficient use of our labor force, less purchasing power, less consumer demand, less production, and a lower standard of living for all." Racism and inequality are self-perpetuating.

5 *Cf.*, however, a statement by Professor Carl Landauer which indicates that such suppression of opinion may be shortsighted even for the preservation of American institutions. The opinion that recurrent depressions are inevitable under capitalism "does not even imply opposition to capitalism. There are any number of conservative economists who see no way of eliminating depressions under the capitalist system and nevertheless believe that this is the best economic order. The idea that we can have capitalism without depression is more characteristic of some liberal economists, as for instance Alvin Hansen or some of the staff members of the Committee for Economic Development, than it is of outspoken conservatives." ("The Wixman Case," *American Civil Liberties Union-News*, December, 1947)

6 The influence of market considerations runs through all the work of esthetic theorists also. Thus the Department of Industrial Design of the Museum of

Modern Art "has as its first duty effectively to recommend to the general public the best modern design." But "the Department must keep in mind that utility and price are as important to the public as design itself." When design itself has built into it the distributive institutions it is easy to say that $100 chairs are "truly suited to mass production and mass markets as they exist in this country." (*The Museum of Modern Art Bulletin*, XIV, No. 1, Fall 1946)

7 William B. Greene, *Mutual Banking*, (New York, 1927) pp. 224-225.

8 Adam Smith, *The Wealth of Nations*, (Cannon Edition, p. 861).

9 Henry George, *Social Problems*, (New York, 1883), p. 164 ff

10 Thomas Mun, "England's Treasure By Forraign Trade" (1664) reprinted in A. E. Monroe, *Early Economic Thought*, (Cambridge, 1927).

11 *Cf.* M. Ross, "Trade Unions as Wage-Fixing Institutions," *American Economic Review*, XXXVII, no. 4 (September 1947) pp. 566-88; "Wage Determination Under Collective Bargaining, *Ibid.*, no. 5 (December 1947) pp. 793-822

12. Ragnar Frisch, "On the Need for Forecasting a Multilateral Balance of Payments," *American Economic Review*, Vol. XXXVII, pp. 535-6. Again, with reference to the post-war situations import and exchange control "should not be regarded as some hidden conspiracy against the business community or even against the principles of freedom of enterprise. To a large extent these are the inevitable consequences of the present state of the world, and more particularly of the countries where the distress is greatest." *Cf.* Willard L. Thorp, *Problems of United States Foreign Policy* (Washington, Department of State, 1947): "The only real defense against these many control devices is sufficient economic improvement to make them unnecessary." "Tariffs do impose a hurdle, but it is always possible for goods to flow over a tariff barrier if there is a sufficient need for them."

The upshot of all this reflection is to emphasize the domestic "state of the world" as the key to the international state. "We cannot separate our domestic and our foreign affairs." (*Ibid.*) It might be added that the announced purpose of the International Trade Organization "to find ways and means of reducing barriers to trade" will largely turn out to be the purpose of finding ways and means of reducing economic inequality; either that or the International Trade Organization will be an ineffectual curiosity like its predecessors.

13. "The investment banker is the means of bringing about a kind of industrial natural selection among enterprises. …Upwards of ten enterprises are rejected by every investment banker for every one that is accepted."—A.S. Dewing, *The Financial Policy of Corporations* (New York, 1934) p. 286.

Chapter XVI:

The General Theory of Depression, War and Totalitarianism

Any attempt to seek "causes" for the chief phenomena of modern life will inevitably be criticized for brashness. This is especially the case where one attempts to demonstrate that a number of important phenomena have a single cause. It is the fashion nowadays to take the "multiplicity of causes" approach: things, we are frequently reminded, are not simple. Students who persist in laying all events to a single condition are held to possess one-track minds, to "over-simplify."

Nevertheless there is ample logical and scientific precedent for just this "simplistic" procedure. We must remember the prestige with which economics has always regarded physics, and then try to emulate our non-Newtonian brethren in their dissatisfaction with all formulae save those which take account of the whole universe of happenings. If we must beware of one-track minds and riding hobby-horses, we must also remember the rule of Occam's Razor. As Professor George J. Stigler[a] has put it,

> The fundamental characteristic of a science is the establishment of generalizations with respect to the relationship between various distinguishable phenomena. If one can say, if A, then B, one has a scientific law. [Moreover] the generalizations should be interrelated and, if possible, reducible to one comprehensive generalization.[1]

No one can doubt that it has been this desire to formulate interrelated generalizations about economic phenomena "if possible reducible to one comprehensive generalization," which has motivated orthodox economics in its search for economic "principles." Unfortunately this search has been misconceived and therefore unsuccessful. This has been the case because economists have not sought laws but tautologies, and tautologies within a very narrow range of behavior at that. Professor Stigler himself provides a case of this tautological approach in illustrating his concept of scientific method just quoted. The following, he writes, is an economic law:

If:

1. An entrepreneur seeks maximum profits.
2. His marginal cost curve does not fall so fast as (or, rises more rapidly than) his marginal revenue curve.
3. These curves are continuous.

Then:

He operates at the output where marginal revenue equals marginal cost.[2]

This procedure amounts to saying, of course, something like the following: If 2 x 4 equals 8, *then* 4 x 2 equals 8, and for this reason such "laws" are not very helpful in erecting a science of economics. Although the formulation of such laws provided great talents with something to do—thus Professor Stigler gets to remind the economics fraternity that even their definitions will not hold unless their curves are continuous—it provides little else. As Professor Stigler himself points out, economics cannot deal with certain problems at all; in particular it cannot deal with "the fundamental determinants of changes" in the basic institutions of our society.[3]

If the tautological (marginal) approach stemming from the fascination with the businessman which has so far afflicted economics means inability to deal intellectually with the major events of our time, the motivation of the discipline is still sound. The search for interrelated generalizations reducible if possible to one comprehensive generalization should not be abandoned because of a false start. Investigators disappointed by the results of marginalism must be, as Professor Stigler reminds us, "intellectually imperialistic." It is true that in economics "some people," the non-Newtonians, "do not like the topics that interest others." Their procedure has therefore been to attempt to show that only by a shift of attention to the topics they like can economics achieve its appointed task of understanding the world about us, and this attempt has taken the form of the elaboration of alternative theories. "The most effective criticism of a theory," Professor Stigler says, "is always to present a better theory: If price phenomena are better explained by Supreme Court decisions than by the elasticity of demand and marginal cost, the former field will not lack investigators."[4]

It is true that the non-Newtonian field has not lacked investigators; perhaps even Professor Stigler is among them. Furthermore, the upshot of these investigations is indeed that price phenomena cannot be explained by the elasticity of demand and marginal cost. But then they do not point to Supreme Court decisions as the determinants either. Rather, Supreme Court decisions as well as price and other phenomena are in the last analysis traced to the "poverty of consumers." Professor Joseph Sohumpeter stated part of this position very well when he said that the non-Newtonian economists hold that "The equal distribution of income is the ultimate cause of unemployment."[5] This is all right as far as it goes. But Professor Schumpeter did not go far enough. He should have said that they hold the unequal distribution of income to be the ultimate cause not only of unemployment, but of imperialism, wars, and totalitarianism.

In short, the non-Newtonian theory finds the phenomena investigated not only by economic theory proper but by the various specialized fields not only interrelated by reducible to a single overriding generalization, a generalization which might be called, partly in order to contrast it with another, less comprehensive and less critical generalization, "the general theory of depression, war, and revolution."

What may be called "the general theory of depression, war, and revolution" can be derived by combining the results of the various economic investigations which constitute the new economics. The theorems which result can be expressed much more simply than those of marginal analysis and have the further advantage of dealing with important facts.

In essence the general theory is this. The basic conditioning factor of modern life is economic inequality—the poverty of consumers on the one hand and the riches of savers on the other. The principal events of modern times, national and international, are the short and long run consequences of this poverty and these riches.

The system of privatives or private property, especially in its modern large and concentrated form, is the reflex of economic inequality. The great incentive of capitalism is the privation incentive appropriate to conditions which render production profitless. The system of privation generates the business cycle. The business cycle is economic inequality on the national scale looked at over time.[b]

Certain further consequences flow from the depressions generated by economic inequality. In addition to the quantitive changes whioh business cycle investigators measure with their "time series" qualitative changes are evoked which find no place in the figures. The most notable of these are defensive imperialistic war and the various species of revolution.

The general theory of capitalism which treats inequality, depression, war and revolution (including the trend toward totalitarianism) as institutions of capitalism also includes the other major habits of modern times. Race prejudice is one of the peculiar institutions of capitalism, for instance, stemming primarily from the scarcity of jobs; it is properly considered a *privative* reluctantly and haphazardly established by the labor force. The suppression of freedom of speech, assembly, and the press is an institution of capitalism stemming from the necessity to preserve other institutions, a necessity, particularly urgent in times of depression and inflation, which is to he considered a part of the trend toward totalitarianism which capitalism produces on the international scene. The debasement of work and art is an institution of capitalism stemming from the twin drives to reduce costs and "stretch the job" and is properly to be considered as part of the institution of privatives.

These points are, after all, details. The general theory in its broad aspects can be stated in a sentence. Economic inequality produces capitalism, and capitalism produces depressions, wars, and revolutions.[c]

Notes

1 George J. Stigler, *The Theory of Price* (New York, 1946) p. 3.

2 *Ibid.*, p. 4.

3 *Ibid.*, p. 10-14

4 *Ibid.*, p. 11.

5 Joseph Schumpeter, "John Maynard Keynes," *American Economic Review*, XXXVI, no. 4, p. 517.

Chapter XVII:

The Crucible of Practice

In an article which appeared some years ago[1] C.E. Ayres noted the close connection which has always existed between economics and social criticism. The problems of economic "theory" have always been eminently practical, stemming from the issues of the day and being dealt with in terms of urgently-needed reform.

At least this has been the case with the originators of the great "schools" of economic thought. All of them, and preeminently Adam Smith, have started out by fashioning a system of economics consciously to do battle with vested interest. But times change, and although old vested interests disappear, perhaps partly because of the attack of economists, new ones arise. They take shelter in the very reforms advocated by the leaders of a previous generation of economists.

By this time, however, the economic theories of the original reformer have become an intellectual tradition. So in upholding and carrying on the "classical" tradition, fashioned originally as an attack on vested interest, the inheritors of the classical line unintentionally support contemporary privilege and inefficiency. A new departure is necessary if economics is to become again truly critical and objective. Sensitive students of the old school find themselves forced to make more and more "exceptions" to the old rules.

The growing body of "exceptions" gradually assumes the form of a new attack on vested interest and entrenched and outmoded habits of economic organization. Although their object is practical, the reformers create a system of ideas with which to do battle for their ideologies. A new "theory" is born. "The economics 'extra cathedra' becomes by force of social circumstance more vital than the doctrine 'ex cathedra' and finds systematic expression as the theoretical background of a new movement of basic social reform."[2]

It is this formation of economic theory in the crucible of social practice which has been related in the foregoing chapters. To the Great Depression we owe our business cycle theory; out of two world wars and a decade of fascist encroachment has come our theory of totalitarianism and world conflict. Moreover, the specific form which these theories have taken stems from the specifically Western procedure for handling problems both economic and political.

This procedure is that of democracy. The non-Newtonian identification of science and morals is a reflection of Western application of the methods of inquiry, education, and experiment to the political realm, just as the Newtonian view that science is "amoral" completely fails to understand this political history. The notion that the public cannot plan, that planning is necessarily central and dictatorial does not seem a matter of course to people who have grown up in the American and British traditions.

It does seem a matter of course to people who have grown up in other traditions. Especially is this the case with economists who have experienced autocratic regimes. This is perhaps the explanation for the current leadership of the Newtonian crusade against planning. To Professors Friedrich Hayek and Ludwig von Mises of Austria "governmental interference" must forever mean the domination of business and citizenry by an irresponsible state, a domination which must be prevented by "the rule of law." They cannot conceive government that is not separate from and superior to the populace.

At the same time their whole background and traditions make them suspicious of "the rabble." Opposition to irresponsible monarchy does not necessarily lead economic "liberals" to embrace representative government. Historically it has led most of them to urge a system of checks and balances (a "rule of law") to prevent the "excesses" of representative government. This is what the opponents of planning are urging now: "wise and deliberate restrictions on the functions of parliament."[3] To one who like Professor von Mises holds that Europe's present troubles stem from "the disintegration of the Austro-Hungarian Empire" and that Mussolini's great crime was making it possible for Italy to declare war on Austria in 1914, democratic planning must indeed seen an invitation to chaos.[4]

Nor has the cause of planning been strengthened by the statements of that other Prussian without experience of Western democratic procedures, Karl Marx, who tried to identify reason in economic affairs with the dictatorship of the "proletariat," in effect proving the proponents of *laissez-faire* right.[5]

What has made the case *for* planning is the facts of life. Not theories but harsh necessity led to the junking of orthodox governmental financing in the thirties, just as the new problems of industrial society had already revolutionized the other functions of government. Not only avowed planners but all political parties have come a long way from the position of Herbert Spencer, whose "individualism" was so uncontaminated as to uphold the right of the urban land-owner to keep his land unconnected with the city sewage system.

Professional economics has also been affected by the facts of life. The Great Depression brought about (and still stimulates) the Great Debate in the academic halls. It is from this debate that progress in economic theory has been derived, in recent times as in the past. Many students have remarked the extent to which the authors of our classics in social science were stimulated to put pen to paper by the appearance of a book which they felt compelled to "answer." In defending his East India Company from pamphleteering attack Thomas Mun enunciated his principles of distribution. Adam Smith in turn defied the mercantilists represented by Thomas Mun. John Locke laid down the basis of "the simple and obvious system of natural liberty" in response to Sir Robert Filmer's defense of the divine right of kings. The publication of William Godwin's *Inquiry Concerning Political Justice* caused Malthus to discover his principle of population. Thomas Paine's *Rights of Man* was written in answer to Edmund Burke's reactionary *Reflections on the French Revolution*. John Stuart Mill's whole intellectual output was colored by his running debate with Comte.

Equally important has been the influence of social experiments on the very concepts employed by economists. The vision of economic "liberty" which so animated Adam Smith was not derived from speculative philosophy. It was a direct transcription, as he himself was well aware, of the differences in prosperity between the free towns and the guild towns of England, the co-existence of which provided an ideal social laboratory for the philosopher of Kirkcaldy. Thomas Mun's theory of the "multiplier" effect of state expenditures upon "Armour, Shot, Ordnance, and Horses" was a faithful portrayal of England's prosperity during the wars of the seventeenth century: a prosperity which like comparable periods since leads to the conclusion that there are after all but two stages of the business cycle: depression and war.

These facts go to show that economic "theory" has been created on the stage of practice. Out of the rehabilitation of the economic system which is always going on have grown all the theorems of the "dismal science." In the light of these facts, the argument of Newtonian economics to the effect that "We don't know enough to plan," that conscious regulation of the economic system must wait upon further knowledge, must stand condemned. Historically the connection between knowledge and planning has been the other way around. Knowledge has waited upon further experimentation; we haven't planned enough to know. Here again economics may learn from non-Newtonian philosophy.

"It is a complete error [writes John Dewey] to suppose that efforts at social control depend upon the prior existence of a social science. The reverse is the case. The building up of social science, that is, of a body of knowledge in which facts are ascertained in their significant relations, is dependent upon putting social planning into effect. …Physical science did not develop because inquirers piled up a mass of facts about observed phenomena. It came into being when man intentionally experimented, on the basis of ideas and hypotheses, with observed phenomena to modify then and disclose new observations. This process is self-corrective and self-developing. Imperfect and even wrong hypotheses, when *acted upon*, brought to light significant phenomena which made improved ideas and improved experimentation possible. …If we want something to which the name "social science" may be given, there is only one way to go about it, namely, by entering upon the path of social planning and control"[6]

Notes

1 C.E. Ayres, "The Function and Problems of Economic Theory," *Journal of Political Economy*, vol. XXVI (1918) pp. 69-90.

2 *Ibid.*

3 Professor Gustav Cassel, quoted by Hayek, *Freedom and the Economic System*, pp. 5-6.

4 Ludwig von Mises, *Planned Chaos*, (Irvington-on-Hudson. New York, 1947) p. 71.

5 It is interesting to speculate how much of the appeal of Marxism stems from this authoritarian strain which it has in common with bourgeois "liberalism," the notion that society is reformed by overthrowing one ruling class and replacing it with another. It is also interesting to note that those theorems of Marxism which reject this scheme of authority and seem to catch a glimpse of that application of impersonal scientific method to moral problems which we call political democracy stem from, the Englishman Friedrich Engels. Of course Englishmen have not always known democracy. Professor Frank Knight reminds us that the governments Adam Smith and his followers were familiar with—and from which they derived their hatred of economic "planning"—were those described by Thackeray as follows:

> Vile George the First was reckoned;
> Viler still was George the Second;
> And what mortal ever heard
> Any good of George the Third?
> When George the Fourth to Hell descended,
> Thank the Lord the Georges ended.
>
> —*Freedom and Reform*, p, 2-3.

6 John Dewey, *Intelligence in the Modern World* (New York, 1939) pp. 951-54.

Chapter XVIII:

The Philosophy of Prosperity

The general acceptance of "full employment" and "full production" as desirable economic objectives has come about not for theoretical but for empirical reasons. Prosperity is deemed valuable by all citizens for two reasons, one negative and the other positive.

Negatively, prosperity must be achieved and maintained if the social costs of economic misery and ultimately revolution are to be avoided.

Positively, prosperity offers material abundance. The standard of living of the masses of the people for the first time in history can be adequate.

Although we have not philosophized about it, the acceptance of full employment and full production amounts to an acceptance of the machine. Industrialism and all its works are ratified and held good. If something is wrong with our civilization, it is not on the side of production.

Production is satisfactory. Distribution and consumption leave something to be desired. The two broad currents which characterize all the enormous literature on the subject of economic stabilization are here summed up. Whatever their disagreements, all economists agree that material abundance is desirable and that our failure so far to obtain this abundance does not rest with our productive techniques. Exaltation of our productive system, indictment of our distributive system: this is the philosophy of prosperity.

Because this philosophy has not been formulated consciously and explicitly, most proposals for full employment and full production are riddled with contradiction. On the other hand, so soon as we explicitly recognize that what we like is technology and that our conviction is that all our economic arrangements should have as their function the facilitation of technological activity—so soon are our contradictions cleared.

What we have done has been to enter on the road to full employment and full production in a half-hearted manner. Congress has of course led the way by passing a full employment bill without teeth. But the Congressional failure is linked to an intellectual failure. The explicit formulation of a philosophy of prosperity would help rid both our intellectual and our political planning of this half-hearted character. As Professor J.M. Clark says, "The first step is to ask what we want of our society. …This may appear the merest self-evident common sense to the reader who is not an economist; but since so much formal economic theory declines even to consider the content of wants…this constitutes a broadening of the traditional economic problem which has revolutionary implications…"[1]

1. Fiscal Policy

Nowhere has the failure to implement the exaltation of production been more glaring than in the realm of fiscal policy. This is the case because redistribution is the moral of the indictment of the distributive system, and our most "advanced" fiscal policy, "deficit financing," dodges this issue.

Everyone should know by now that debt creation amounts to postponement of taxation. It is a half-hearted full employment policy which refuses to meet the issue of income flow square-footed, instead attempting to gain time for "strategical" reasons with debt creation. Far from solving any problems, far from unleashing technology, adding to the pension list by adding to the national debt doubles our difficulties.

For this reason the whole literature of full employment which deals with public debt "management" is not full employment literature at all, but a discussion of palliatives. If we will the end, we must will the means. Economists concerned with such problems as when to repay the debt, whether to keep prices stable, whether the debt should be held by banks or by private individuals wrestle with these problems only because they are still concerned with the debt itself.

Economists should be concerned with production. A concern with the productive system is called for by an explicit philosophy of prosperity. This in turn calls for a reduction in economic inequality; it follows that the national debt should be abolished. To do this does not call for confiscation—we are not Bolshevists! The bond holders can pay off themselves; the debt should be retired by taxing its owners in direct proportion to their incomes.[a]

Public works programs are also confused. Here too outright acceptance of production would clear the confusion, Public works should not be "timed to offset depression" or chosen to "develop private investment outlets" or avoided because they "compete with private investment." Public works projects should be undertaken for their merits and should include all those activities too large for anyone but the people as a whole to handle. The very idea of "timing" is half-hearted; it assumes that there will be depression which must then be "offset." The very idea of choosing projects to develop private investment implies that private investment is what we are concerned about. On the contrary, production (public welfare) is what we are concerned about.

Government expenditures for consumption subsidies are part of a fiscal policy guided by a philosophy of production. Everyone now recognizes that productive efficiency demands a healthy, well-fed, well-educated population which is then in a position to use and enjoy its output.

2. Taxation

The tremendous literature dealing with various tax proposals is itself testimony to the lack of a unified philosophy in this field. Economists discuss the pros and cons of the income tax and capital gains tax, the estate and the corporation tax, excess profits, excise, and payroll taxes so incessantly because they are not sure in their own minds what they want to do. Their basic criteria and "ultimate" ends remain obscure.

If production is what we want and distribuion stands in the way, we must redistribute. All taxes redistribute. Every tax is an income tax. But some taxes redistribute income in the right way—that is, in ways which promote full employment and full production—and others in wrong ways. The problem is, once, we have definitely understood in our minds that what we want is production, to bring about a greater equality of income as simply and expeditiously as possible.[b]

Nothing is required to attain this objective but a steeply progressive personal income tax, along with an undistributed profits tax to insure that corporate incomes get into personal hands. Capital gains, inherited income, and all other income which now escapes the regular rates of the income tax should lose their privileges. Half-hearted measures like the corporate income and excess profits taxes should be replaced with the real things.[c]

Most of the debate over taxation implicitly denies that full employment and full production will be attempted. Proposals to introduce flexible tax rates, to permit the averaging of income over a period of years, to vary payroll taxes with the state of employment, and so on are by definition "counter-cyclical measures." Adopting an explicit philosophy of prosperity emphasizing production would mean dropping emphasis on such measures. It would also mean dropping the subterfuge that other kinds of taxes than income taxes exist. The only question is, Shall we have progressive or regressive income taxes?[2]

3. Credit Policy

As soon as the goal of full production and full employment is openly avowed by economists, the role which the banking system has all along played will become obvious. Banks play a large role in determining what is produced and what is not produced. Extension of credit amounts to a go-ahead signal for construction, invention, housing, consumption; refusal of credit denies these processes.

Recognition that credit policy is production policy will be followed by public control of this policy. This is what the various indirect measures now discussed already amount to in the last analysis. Most theorists admit that indirectly the people through their government should regulate credit extension and therefore production.

Nevertheless the absence of explicit recognition of this objective hampers the result. Controls ostensibly introduced for their indirect effects become ends-in-themselves. So much attention is devoted to stabilizing interest rates and bond prices, to the regulation of reserve requirements, and to the capital-asset ratio of commercial banks that economists understandably get the notion that what they are concerned about is interest rates, bank reserves, and capital-asset ratios.

This is not the case. Their concern is production. Conscious recognition of this fact in all discussions of credit policy would prevent the contradictions and confusions in this field. As things stand, credit policy is half-hearted. Some loans are regulated by quasi-public bodies. The need is for all loans to be regulated by definitely public bodies in the interest, not of banks or of the things bankers are concerned about, but of lessening economic inequality and therefore furthering production.[d]

4. Anti-Monopoly Policy

The Newtonian economists are concerned to encourage free enterprise. Yet their failure to elaborate a conscious philosophy of prosperity stands in the way of such encouragement. The position which Newtonians take on small business and new business is a negative one. They propose to encourage competition by the abolition of monopoly. Monopoly must go before small business can survive and new business get a foothold. These desirable ends can be achieved, however, only if the social conditions favorable to competition are achieved. The very failure of the Newtonian economists to exalt production at the expense of business traffic stands in the way of liberating even business traffic.

This is the case for a very simple reason. A true anti-monopoly policy is one which proposes to crush the seeds of monopoly. It may very well be true that the cause of our present troubles is monopoly. But history offers no evidence that the way to eliminate economic concentration is frontal attack.

Indeed history, especially the history of the recent war, goes to show that the way to eliminate monopoly is to achieve prosperity, The Newtonians, as the physiocrats used to say, have the plow before the oxen. They have thought that the elimination of monopoly is a prerequisite to the achievement of prosperity. Actually, the achievement of prosperity is prerequisite to the elimination of monopoly.

Everyone recognizes this when the topic is "the growth of combination." All of our great "trusts" were reactions to price wars and flooded markets. Similarly everyone knows that a period of prosperity such as the recent war sees a host of invasions of the established industries. Our problem now is to keep these two kinds of experience in mind as we consider the problem of depression and full employment.

Trust-busting should continue. But to make it effective we must achieve prosperity. To provide a climate of customers in which new businesses can flourish, we must redistribute income to make those customers.

It follows that our tax policy so far as it is progressive is at the same time effective anti-monopoly policy. Of course our public works policy is too. It is not the purpose of public works to serve as yardsticks for other industries but this yardstick function is a desirable by-product.

A philosophy of prosperity which puts production first will cease to worry over the false distinction between "governmental interference" and "free enterprise." Governmental interference which requires federal incorporation of large business is a different thing from governmental interference to protect a large business. There is no question of having governmental interference or not having it. Free private enterprise has been based all along on governmental interference in the service of property rights, especially large property rights. A new kind of government interference aimed at full employment and full production will remove support to monopoly at the same time that it encourages new enterprise.

5. International Finance

One of the issues in anti-monopoly policy is the tariff. Those who urge that monopolies be broken up are insistent that the traditional shelter of monopolies, the protective tariff, lead the way to discard. Protection amounts to public support of the trusts, just as do price maintenance laws and "fair trade acts."

Such an anti-monopoly tariff policy not only misconceives effects for causes in the monopoly field but in the troubled field of international finance itself. Free trade is only one of the desiderata in international finance. Stability of exchange rates is another. Restoration of order in international leading and borrowing is a third. And defects bred by flights of "hot" capital constitute a fourth. Reforms in none of these latter three fields can be effected directly, any more than tariff reform can. Exchange stability, orderly capital movements, and sensible lending and borrowing are results of healthy domestic economies. Solution of the domestic problem is the prerequisite for order in international affairs.

Here again we need to look no farther than the great depression to understand these things. The competitive depreciation of exchange rates was a consequence of the economic collapse of 1929. The breakdown of international lending came because of domestic depression in the United States. There were flights of capital from the European countries because investment opportunities there disappeared with the spread of depression from the United States.

The "world bank" has now been set up to lessen the risk of foreign lending. The world bank is essentially a device to shift losses from Wall Street to the taxpayers. International bankers have learned the lesson of two world wars well. In both world wars the "wise money" in the United States has avoided direct overseas loans to the Allies. Instead the government has made the loans and the bankers have bought war bonds as they are now to buy world bank bonds. When the losses come, they will have the United States bonds in their vaults—or, what amounts to the same thing, bonds of the world bank—and not British or Russian or French or Italian bonds.

Yet even this likely scheme for taking the profits of world lending and avoiding the risk and the losses has its dangers. Prerequisite to even United States treasury solvency is consumer solvency. If money is to be forthcoming from the taxpayers to pay the bankers' interest the taxpayers must have jobs and markets. Achievement of prosperity is essential if the world bank, the social security board of international financiers, is to achieve success in its efforts.

6. Wage Policy

Once the eye is fixed on production, the problems of wage policy become problems of production. The question of wages is a question of efficiency. Should wage rates be raised? That depends on whether we need customers. Should we raise wages rates even in a period of inflation? This depends on whether we really believe that production will be forthcoming only if customers including wage earners have plenty of money in their jeans. There is no explanation for the wage criteria in vogue now except the absence of a philosophy of prosperity. The criteria in vogue are two. One thinks that wage rates should be tied to productivity. The other thinks they should be tied to the cost of living. Both have no conception of the problem to be solved.

If we once clearly recognize that what we are interested in is full production the question of wages becomes: What wage rates are necessary to full production? instead of, what wage rates reflect increases in productivity?

The whole concern with productivity is Puritan. We are still trying to solve the problems of economics on the assumption that those who come to the table without horny hands should not eat. Workers should be paid more only if they produce more. This argument is very specious in assuming that productivity can be measured; production is a social process and no laborer produces anything, no more than anyone else does.

But even if it were true that productivity could be measured and that over a given period it went down or failed to rise, it would not follow that wages should not go up. Indeed, it would probably follow that productivity had not risen *because* wages had not gone up. Everyone knows that machines and other advanced technics are introduced by businessmen when wages are high. When they are low handwork is more profitable.

The question, How do wages stand in relation to the cost of living? is also misconceived. The question is, How do wages stand with reference to full production?

Wage increases may be called for whatever the state of the cost of living index. As most people recognize today, the very idea of tying wages to the cost of lining is feudal. It assumes a fixed standard of living which must not be encroached upon but which must not be augmented either. But more important than this moral crime committed by those those who study the cost-of-living index is the crime against efficiency. High and increasingly higher wages are necessary to provide the continually expanding markets necessary for year-in year-out full production and steadily growing productivity. Tying wages to the cost of living amounts to setting roadblocks in the way of mechanical progress. New products, new inventions, even new resources are all by-products of full production, and full production is a by-product of the full consumption to which "the economy of high wages" contributes.

Administrative difficulties exist in the field of labor relations. The redistribution of income to which wage increases contribute might very well be accomplished through taxation instead of through wage policy.

That is a question of tactics. But the philosophy of which whatever tactics are adopted will be a part is one which emphasizes income redistribution. This emphasis is placed because of the key role of income redistribution in full consumption and the key role of full consumption in full production. The philosophy of prosperity exalts production and consumption—these "mere material" activities—as ends-in-themselves.

Civilization consists, in this view, of making machines to make more machines to make more machines. To do anything else would be immoral. Tools and machines are not only the source of all our ideas on efficiency but also of our ethics; it is no accident that the word "sin" originally meant a poorly-shot arrow. Production means cooperation, peace, freedom, and brotherhood.

Notes

1 S.M. Clark, *Alternative to Serfdom* (New York, 1948) pp. 7-8.

2 It is coming to be recognized more or less generally that this is the important question to be asked about prices as well as taxes. After all, prices are taxes, in the sense that they are forced contributions to quasi-governmental bodies (corporations) for services rendered. Because different people regardless of their relative incomes typically pay the same price for the same good or service, prices as charged by most firms constitute regressive taxation. If prosperity is desired this sort of thing should of course be abolished. The appropriate instrument is price discrimination, which in contrast to uniform pricing leads to greater production, lower prices, and increased profits. (*Cf.* D.A. Worcester Jr., "Justifiable Price 'Discrimination' Under Conditions of Natural Monopoly; A Diagrammatic Representation," *American Economic Review*, XXXVIII no. 3, June 1948, pp. 382-88.) Obviously the question as to which is the better instrument of income redistribution, formal progressive taxation or price discrimination, is one of administrative convenience, since price discrimination amounts to progressive taxation.

Chapter XIX:

The Morality of the Machine[a,b]

"What will be singled out as the salient event of our time by future historians?" asks Professor Arnold J. Toynbee in a famous essay. "Not, I fancy, any of those sensational or tragic or catastrophic political and economic events which occupy the headlines of our newspapers and the foregrounds of our minds; not wars, revolutions, massacres, deportations, famines, gluts, slumps or booms, but something of which we are only half-conscious." What another historian-philosopher has called "the meeting of East and West" will seem in historical perspective, Professor Toynbee hazards, as the truly important happening of the first half of the twentieth century. For in the process of impact and counterimpact of the industrial Western and the agricultural non-Western societies whole civilizations—"the behavior, outlook, feelings and beliefs" of whole peoples—are being turned upside down.

I shall not be concerned with this larger civilizational process in the present discussion, although my subject—the impact of science and technology, of the "machine," on our American "outlook, feelings and beliefs"—is obviously related. The point of Professor Toynbee's to which I wish to call attention is his insistence that there are more important developments than show in the headlines. Specifically, I wish to urge the thesis that the most important product of science and technology at the present time is not penicillin or television or atomic energy or any of the other startling discoveries that usurp the headlines and occupy the "foregrounds of our minds," but a new way of thinking about the larger problems of the community in which these new gadgets and resources are appearing. In particular, science and technology, I believe, are affecting, although as yet only half-consciously, our way of thinking about the economic arrangements of "free private enterprise," or capitalism.

Changes in our way of thinking on economic affairs are recognized by all of us as overdue, and as absolutely necessary to prevent a depression which might create just the conditions in Europe which Stalin is counting on. As we remind ourselves that "prosperity is the best defense against communism," we remember the contrary melancholy truth that the Great Depression of the thirties was the Achilles heel of Western society that allowed Hitler to undertake the Nazi version of the world "revolution of destruction." Unless, therefore, our way of thinking derived from science and technology becomes conscious, and its adoption accelerated, we shall continue to fail to prevent the economic conditions that periodically give the Hitlers and the Stalins their opportunity.

Yet habits of thought associated with free private enterprise interfere with the change that all desire. Even as we recognize that our own "peculiar institution" shares responsibility for the spread of dictatorship and world war, we are uneasy in seeking alternatives and are therefore hampered in making a clean break with the past. In a real sense capitalist morality—even though in an unrenovated form it seems inseparate from depression and its series of calamitous social consequences—is still the only morality we have. This is the case because capitalism does provide a scheme for dealing with, after a fashion, the key economic questions which any economic system must answer. These questions are, What different things shall be produced? and, How much of each? Capitalism's far-heralded mechanism for dealing with these questions is known as "the allocation of resources by the price system," and the idea of this mechanism is so attractive to most of us that it stands in the way of the basic reforms that are necessary if Western civilization is to avoid another war and possible extinction.

The idea of the price system is very simple. It is that of "consumer sovereignty." Under capitalism the decisions as to what things shall be produced and how much of each are made by the individual shopper. Every purchase in the "market" amounts to a vote of preference by the consumer involved, a directive to businessmen engaged in supplying goods and services. A great number of purchases recorded for any item causes its price to rise, and this is a signal for additional businessmen to drop whatever else they may be doing and produce the demanded goods. Their motive is profit, but the outcome is the production of just what the community wants. Thus self-interest is harnessed to the general welfare: resources are allocated in a process in which every individual participates, guiding by his purchases all the know-how of the community into the production of just those things the community wants and chooses.

The idea that the price system is "economic democracy" or the vehicle of "individual sovereignty" is very attractive—so much so that it is still extremely hard to give up—but for at least two reasons it gives an incomplete picture of the facts. In the first place, as everyone recognizes in times of inflation, the price system gives expression not to preferences but to buying power. In effect, it asks us not what we want but who we are. This is the case because of the extreme inequality of income under capitalism—which determines that, for instance, the wealthiest ten per cent of the nation receive among them as much income per year as two-thirds of the rest of our families put together. Obviously consumer ballots cast by such different voting publics differ widely—in this economic democracy a minority stuff the ballot boxes while most of the community are virtually disfranchised! In truth the price system does not allocate resources at all; this "system" is simply the arena in which we throw our economic weight around—if we have any. "Allocation of resources by the price system" is a euphemism for allocation of resources by the rich, who suffer with the rest of the community when the arrangements maintained by this euphemism collapse. In recent years the community has learned that not only does the price system fail to give expression to the desires of the community, instead serving as the errand boy of the wealthy in proportion to their wealth, but that periodically the system breaks down altogether. The extreme inequality of income which piles up massive incomes at the top of the heap leaves a virtual vacuum throughout wide portions of the community. Oversaving and underconsumption result; the rich fail to find investment outlets for their savings precisely because these huge savings at the top mean that the mass markets on which new investments depend are absent. The result is that progressive falling off of investment, production, and employment which spells depression. The industrial plant grinds to a stop.

Depression marks the greatest failure of the price system. That the rich get the greatest share of production is not particularly annoying, for many of them are active businessmen interested in and contributing in important ways to production; but that production should cease is unbearable. It is annoying, of course, that “allocation of resources by the price system” puts the conspicuous consumption and conspicuous waste of coupon-clipping playboys on a par with the machinery orders of active business managers. But more important is the fact that this “system” periodically fails to allocate resources at all, or, rather, that our land, labor, and capital goods in such periods of depression and unemployment are allocated to idleness and rust.

Apologists may perhaps say that “idle machines and idle men” are due to “failure of demand,” implying that, since the price system is merely a medium for the expression of wants, the machines and the men are idle because nobody wants what they could produce. But many of us feel, on the contrary, that the idleness results from the failure of the free price system of free private enterprise to work as it is supposed to work, and for this reason the community is casting around for a substitute.

Nevertheless, the community has been unable thus far to come up with an alternative morality to do battle with the philosophy of consumer sovereignty. The most likely candidate was the philosophy of economic “planning.” Those who put their faith in planning proposed a new answer to the questions, What shall be produced? and, How much of each? The community, they said, should sit down and take stock of what it wants and needs, utilizing not the mechanisms of the price system with its warped and self-defeating answers but the tested and reliable techniques of investigation, discussion, criticism, and experiment. Already, it was pointed out, this method is employed in science and technology and, indeed, in many other walks of life, even for such economic projects as the building of dams and highways; why not extend it to apply to the whole economic system?

Right at the outset this promising new departure in economic thinking ran into barriers which so far have proved insurmountable. First, there was the unfortunate fact that quite unsavory political regimes were loudly proclaiming to the world that they were planned societies at the very time that the opponents of capitalism were urging that the life of reason be extended to include production and distribution. Since the latter also spoke of planning, they quite quickly, and in great part undeservedly, were identified with the fascists and Stalinists and came in for all the obloquy which attached to them. Some of us are now wondering whether we have been too hasty in crediting Soviet Russia, for example, with being a planned economy, thereby taking the statements of its dictators at face value. Makeshift brutality, attempting to solve by club and whip problems that only democratic and scientific procedures of discussion and criticism are competent to deal with—this is what is going on in the Stalinist motherland, not "taking thought," which is, after all, what planning means. But, in the meantime, the revived propagandists for capitalism, overjoyed at this unexpected help at the count of nine, have managed to convince almost the whole community that any tampering with the sacred cows of free enterprise in the name of planning is synonymous with dictatorship. Capitalism may have its faults, but we had best reconcile ourselves to living with them, for if we attempt reform we shall succeed only in establishing the same serfdom that the planned economy of Russia has brought.

Capitalism's counterrevolution would not have been so successful, however, if the doctrine of economic planning as it now stands did not have an inherent weakness. Certainly propaganda can convince a community that black is white, or that a David Lilienthal is a Hitler in disguise, but it can do so only in the absence of a stronger competitive idea. Despite the obvious defects of capitalist morality, with its reliance on the individualism of the free price system, the proponents of rationality in economic life have not yet come forward with an inspiring alternative morality. In a way, they are unsure of themselves, and even tacitly or openly admit that planning might perhaps involve a little coercion, or at least a centralization of decision-making in the hands of a small group of planners, thus giving the whole game away to their capitalist detractors.

Although this diffidence is unnecessary, and although real economic planning does not involve centralization of authority or coercion of individuals, the confusion and backtracking of the opponents of capitalism are understandable. For, although they are no longer capitalists, they are still individualists, and the peculiar kind of individualism that characterizes the Western world is definitely inimical to thinking in terms of an alternative morality to that of the price system, even when one is trying with might and main to do so. For this individualism assumes that what should be done in the community—morality, in other words—cannot be a matter of voluntary agreement; individuals either make their own unique subjective choices, or they are coerced by other individuals. As individualists, therefore, even the economic planners cannot conceive of settling the problems of production and the allocation of resources except by reference to the wants and desires of individuals—and this lands them right back in the toils of the price system that gives expression to these presumed individual cravings. The planners have not indicated any objective criteria for the allocation of resources, and until they do planning will be opposed by the community on the ground that it gives a few men a great deal of arbitrary power. Actually, just the opposite is the case. Not long ago an official of a national small businessmen's organization called the heads of America's leading corporations a "Politburo," and that is the reality of minority control which the planners would have us escape. But at the present time the community is not convinced that planning can be objective—can, in other words, represent anything but the ideas of the planners—and until it is so convinced it will continue to entrust its economic destinies to the price system, which under the guise of consumer sovereignty actually works out to give a few men just the arbitrary power that is feared.

Is there an escape from this dilemma? Is there an objective alternative to capitalist morality? There certainly is, and it has been lurking in the statements of the economic planners all the time, even though they themselves have been too abashed in the face of torrents of criticism and mudslinging to recognize and use it. The answer to the questions, How should we use resources? and, How should we decide how much of what things to produce? is their old answer. We should decide scientifically by social discussion and agreement just as we decide so many other questions already, despite our mistaken individualism. The dictates of industrial civilization, not those of all-powerful central committees, nor yet those of all-powerful corporate magnates, should be our guide. Doing and making what the turbines and railroads and factories tell us: this is the objective morality of the machine, and this is what it tells us: make more turbines, factories, railroads; allocate resources to make more machines to allocate more resources.

These statements, unfortunately, tend to meet only with derision. Everyone is familiar with the answer to people who say such things, or who are even suspected of saying such things. Such worshipers of the machine-god are elevating a mere means to the status of an end-in-itself, trying to take all the value and dignity out of human life and reduce it to the synchronized and deadening monotony that Aldous Huxley describes in his *Brave New World*. Or at the very least such proponents of the morality of the machine are dodging the question. The question is not, Shall we make machines? but, What shall we use them for? To what ends shall they be turned? About these questions the machine and its handmaiden science can tell us nothing. They are very helpful in making things for us but they tell us nothing at all about the uses to which these gadgets shall be put, the ends they should subserve. If these questions are not settled first, if we go off the deep end thinking that there is something inherently valuable about machines as such, we shall find ourselves making machines to make more machines to make more machines, flooding the world with dime-store merchandise, using $10,000,000 cyclotrons to produce a better grade of popcorn.

If we are ever going to escape the tragedies of capitalist morality—and time is growing short—we should recognize at once and without qualification that such allegations are nonsense. It simply is not true that machines do not tell us anything about the uses to which they should be put. So far from this being the case, just the opposite is true. The use to which a machine should be put is determined by the machine itself; it is inherent in the machine itself; it is inherent in the very idea of a machine.

On the simplest level this is obvious to those most worried about the erection of machines into absolutes and therefore about the problem of determining the ends which these mere means should subserve. In every particular case both the proponents and the confused opponents of capitalist morality recognize that science and technology tell us what should be done as well as what is. After all, none of them ever asks: What shall we use the new mechanical cottonpickers for, picking cotton or digging potatoes? And what about jeeps—should we milk them or ride them? Even those most rabidly derisive of the idea that machines themselves tell us to what uses they should be put never shave with their fountain pens or carve their Christmas turkeys with can openers.

On a more recondite plane they usually recognize that even when tools are used in ways they were not originally intended to be used—as in invention or artistic innovation—there is some inherent qualification for the new job. Edison used tungsten for a new purpose, but he used tungsten, not catsup. Finally, when it comes to still more general issues, there is some (perhaps unconscious) inkling that if, for instance, atomic energy is used for military purposes it will destroy even its users; therefore, it is inherently not intended to be so used and is intended for beating swords into ploughshares and suchlike activity.

Yet those concerned to erect a new morality still do not see that such cases point to technology as the locus of value. They still put their questions in the old way. They still deny any obvious connection between machines and their uses; they still refuse to generalize from all the particulars and conclude that our guide in economic affairs should be the internal dynamic of industrialism itself. Science's inherent morality goes unobserved and, indeed, is denied out of hand.

But it is exactly inherent morality which science and its copartner, industrial production, have to offer. Our search for real values would be greatly facilitated if we would realize that the uses, ends, and concomitants which machines should have are not arbitrary but are determined by the machines themselves. Our very resources will tell us, if we listen, how they should be allocated.

Take any number of examples. The very existence of dynamos is conditional upon their being used to run the mills where the steel is forged to make dynamos. Similarly, if we are to have railroads, they must be used to carry the steel to make the dynamos which make the electricity to run the railroads. Every use of the machines can be stated in such a circular sentence to bring out the internal requirements and interrelated conditions requisite to carrying on the industrial order, and it is these interrelated conditions and requirements, laid down not by arbitrarily constituted authorities nor yet by arbitrary individual wants, which make up "the morality of the machine." These requirements are both qualitative and quantitative. What shall be produced? Tires, spark plugs, windshield wipers, bumpers. How many of each? The automobile tells us—multiply the number of automobiles by five to get the number of tires, by ten to get the number of spark plugs.

Obviously to speak in this way of the morality of the machine is in a way poetic license. Some human regime must determine what kinds of machines and how many are to be manufactured and put into operation. There is, nevertheless, a good reason for speaking metaphorically in the face of this fact, and for this reason the community, I believe, would make a great mistake in allowing apologists for free enterprise who continually dwell on the fallibility of planners to prevent the economic change so urgently required at the present time. The point is this: scientists and engineers are human too, yet they are guided in their activities by objective relationships existing outside of them, and in a very real sense can be said to be "cooperating with Nature." There is no reason why we should not in similar fashion cooperate with the machine, or be guided in our economic procedures by industrial civilization's objective conditions of existence, and this is all that is urged here.

True, our machines would not dictate directly; their wants and desires would have to be interpreted, just as are nature's. But if the machine were accepted as the truly valuable part of society, if we decided at every crossroads to facilitate it instead of the free price system, disagreements about interpretation could be resolved in economics in the same way they are at present resolved in physics and chemistry: by recourse to the facts. For what is good for the machines is open to objective determination. There is no question that science and engineering can tell us what to do to keep our machines in good health, provided we agree to let them. The question the community has to answer is, Shall we be guided in our economic decisions, in our allocation of resources, by science and engineering, or shall we continue to be guided—or rather, misguided—by the wants and desires of consumers expressed in the free price system?

Misled by propagandists for the status quo and by its own inherited habits of thought, the community may reject the morality of science and engineering, to its material loss and political peril. Among other things, it may understand by "science and engineering" scientists and engineers, and reflect that these folk are human, fallible just as businessmen are, and therefore refuse to jump from the frying pan to what might turn out to be the fire. But, if we cling to our present ways under these assumptions, we shall have forgotten that in a very real sense the scientific method has eliminated man's ancient fallibility and individualism, or at least made them susceptible to discovery and control. In changing science and engineering for businessmen, we should not be merely changing one set of people for another, but substituting an entirely different method and procedure for our present "system" of handling economic problems. This method is truly one where autocracy and dictatorship have no place: it does not matter who you are in the world of science if your experiments do not check out. Or, if one man makes a mistake, another will catch it almost automatically. For a society based on science to be caricatured as authoritarian is ridiculous, because science and technology are the prototype of "government of laws and not of men."

Charles F. Kettering, the grand old man of the General Motors Corporation, was invoking the morality of the machine, I think, in his reply some years ago to a question concerning his authority in the research laboratory. Though they call me "Boss" Kettering, he said, I'm not the boss: nobody is. When we are trying to improve a motor and want to know what to do, "We set up the motor and let it talk." It is in this sense, which is really meaningful and not just poetic metaphor, that we can speak of the dictates of the machine, of what our motors and engines as a whole are trying to tell us. When we speak in this fashion we are merely indicating that more than our private opinions are involved, that anyone can check orders and decisions based on mechanical requirements and come to the same conclusions himself.

The dictates of the machine, the internal mechanical requirements of industrialism, go far beyond merely physical decisions in the making of automobiles, railroads, and dynamos. Already it is becoming clear that social arrangements are also involved. Interestingly enough, the focus here has been at the very point at which capitalist morality broke down so disastrously: the distribution of income. It is now a commonplace that "mass production is impossible without mass markets," that full production calls for full consumption, and so on, although we have not yet taken the steps to reduce income inequality which this perception requires.

Other, related perceptions are also becoming commonplace, and when theoretically generalized will be recognized as "scientific morality," or the ethics of the machine. Thus we perceive that industrial civilization must be used to house and to employ and to educate our whole people if they are in turn to be able to operate and maintain industrial civilization. If we are to have machines at all, in other words, we must necessarily also have peace, tolerance, and abundance; *i.e.*, we must use machines peacefully, without discrimination, and to the hilt. These are parts of the machines as surely as are nuts and axles, and the blueprint of a factory calls for high wages and increasing consumption as surely as it calls for assembly lines.

Similarly, to have machines we must have science—and science cannot live, much less flourish, without freedom of inquiry, liberty of expression, opportunity for education and criticism, respect for the dignity of the individual. The idea of having machines includes the idea of having peace, full and creative employment, pleasant jobs and cities, the four freedoms. Just as definitely the idea of having machines excludes slums and malnutrition, which cripple workmen; prejudice and war, which interrupt work and condemn men to rusting idleness or corrupting violence.

Here I must pause to answer an objection. Surely, someone will say, you are forgetting Hitler? To him the idea of having machines certainly did not include all the democratic values you mention. He certainly used machines for destructive purposes, and so have countless other people. If machinery and science are so democratic, how do you explain their existence in the totalitarian countries? I should answer these questions in this way: The totalitarian countries have limited their scientific advance and mechanical might to just the extent that they have limited human freedom. If Hitler, for instance, had not locked up or killed off an important portion of Germany's scientists and intellectuals, her industrial progress could have been incomparably greater than it was. We sometimes speak of fascism as "efficient." What could be more foolishly inefficient, from the Nazis' own point of view, than exiling such atomic scientists as Lise Meitner on the ridiculous grounds that they were non-Aryan?

Men and societies can try to turn machines to inherently illogical (and immoral) purposes, but such acts are self-defeating. This is true not only for dictators, who discover that to use machines for war purposes is to raise up their own executioners. In just the same way capitalists will destroy capitalism, I think, if in the next few years they use machines to "maintain profits;" *i.e.*, if they allow our technology to lie idle half the time. Finally, if politicians continue trying to disregard the morality of the machine and consequently use machines to preserve national sovereignty, they are going to blow up the world, they are going to blow up national sovereignty, and they are going to put an end to politicians too.

If, on the other hand, the world comes to accept the industrial ethic, it will have a principle for the allocation of resources which will hasten the disappearance of the threats to the individual and his freedom which now make life a terror. Not only this, but mankind will be on the way to a life in which those finest achievements of the human spirit, art and culture, will become the ordinary, accustomed, and uninterrupted dedication of the community. Far from leaving out of account the nobler sides of human nature, as critics of the new morality sometimes urge, the principle of "making more machines to make more machines to make more machines" is the artistic, creative principle itself, generalized and erected into a guide. For what is art itself? Can it be characterized in any other way than making sonnets to make more sonnets to make more sonnets, painting pictures to paint still other pictures? Nor are these "creations" ends-in-themselves. Just as the meaning of railroads is vacations and travel which "broaden and enrich the personality," so having paintings means enjoying Sundays in art galleries, "capturing moments of eternity," "halting the fleeting flow of time for the instant," and all the rest. Indeed culture is not a special case but one with industrialism; there is an interdependence between the fine and mechanical arts, in which (for instance) painting's gift of linseed oil to the printing industry has been handsomely recompensed by modern technology's addition of a host of new materials to the artist's repertoire. It is absolutely impossible, moreover, to separate industry and culture in any given case. Is architecture art or construction? Is Boulder Dam awe-inspiring or efficient? Is a Stradivarius a masterpiece of craftsmanship or a work of beauty?

No, making machines to make more machines does not exclude making sonnets, but includes such activities by definition. That is why the distribution of resources under the industrial ethic will allocate books and leisure and opportunities for work and study to artists, instead of the grinding poverty and wasted talents too often meted out to them under the morality of the free price system of capitalism. For, even these days, with many vestiges of capitalist ethics still clinging, the community recognizes that artistic activities are liberative of the whole of life; the artist is among other things a critic who enables us, as we frequently say, "to see ourselves for the first time." We run our machines better for a Dickens who shows that poverty does not conduce to industrial progress and for a Kafka who warns us when the machines are turning into a bureaucratic Apparatus; these and others like them are our real efficiency engineers. With the self-conscious adoption of the ethic of industry, the morality of science, we shall not only be on the way to ridding the world of the curse of depression, war, and totalitarian dictatorship but toward creating a society in which art and culture can flourish as never before. Prerequisite to this moral revolution is an intellectual one. It is up to us whether we shall decide in time that the capitalist morality of allocation of resources by the price system is a fraud and that the pooh-poohing of allocating resources by the inner logic of industrialism as nonsense is itself nonsense.

Our business and political leaders are for the most part captives of price morality in their social thinking. So are our engineers and scientists. But within the factory, in the laboratory, another principle for the allocation of resources is followed. The scientists and engineers use it, and the businessmen and politicians tolerate it, to a degree. Both groups must now lead the way to a generalization and a freeing of this method, to the adoption of the morality of the machine in the larger community.

This wider adoption may turn out after all to be the "cultural synthesis" which Professor Toynbee decries. Science and technology have already made the world one physically. Because they are the locus of freedom, the prototype of the classless society, the antithesis of arbitrary dictatorship, they now have a chance—or, rather, taking our hint from the machine and science, we and, above all, our leaders now have a chance—to make the world one morally.

Chapter XX:

Economics, the Moral Science

Economists hate to think of themselves as reformers. Whatever they have said about the machine they have disavowed personal interest in the machine. With Olympian detachment they observe the course of things caring for the outcome of naught save their theories—or so they say. Actually this "scientific" attitude is the opposite of scientific, as we have seen; it leads, in fact, to the uncritical acceptance of the economic mores. Yet the doctrine of "amorality" is an article of faith untouched by the ceaseless ebb and flow of rival methodologies and "tools" of investigation.

Moreover it is not even true that economists' interests do stop with "mere fact-finding." The overwhelming majority of the profession shows an intense interest in all the problems of the day and an active and ingenious effort in their solution. The doctrine of amorality has a place in the first chapter of their books and that is the end of it.

This abstract idea does not keep them from administering governments and corporations, testifying before Congressional committees, advising citizens on topics from income taxation to the containment of Communism. Nor are they careful on such occasions to point out that they are speaking only "in the capacity of citizens." On the contrary they express themselves as if the whole prestige of the science of economics stood behind their every statement.

Such an attitude must seem hypocritical, as indeed it is. Naturally it makes the more responsible members of the profession uneasy and concerned to remedy this radical bifurcation between theory and practice.

Thus a few years ago Professor George Stigler addressed himself to this very problem, and in doing so dealt first with the traditional separation of economics and ethics or morals. "Ethics is the study of values," he began. "The philosopher, and not the economist, attempts to decide whether a consumer *should* prefer recitals of the modern dance to spiked beer." "Strictly speaking, words like *ought* and *bad* cannot occur in an economic discussion."

The reason for this prohibition is the familiar presumed danger to the scientific attitude. "…It is apparent that if value judgments were mixed with logic and observation, a science would make but little progress." But, Professor Stigler concludes with characteristic humor, it should not be thought that this "austere economics" does not have its disadvantages. "An economist cannot, as a scientist, say that the legislation which requires the treasury to buy domestically mined silver is bad legislation. But it *is* bad legislation!"[1]

Professor Stigler leaves the problem at this point, with a good-natured joke at the expense of his own illogic. But laughing the matter off of course does not solve the difficulty. The condemnation of the silver-purchase legislation on such assumptions still amounts to saying: This is my opinion, for what it is worth, and it is not worth anything and I shouldn't even be giving it, yet you should listen to it and act on it as if it were the gospel truth. No wonder economics is in ill-repute in many quarters!

The way to avoid these difficulties and this ill-repute is, of course, simply to forget the hoary distinction between economics and ethics, together with all associated metaphysical riddles.[a] There is every logical reason to do this. Not only does the desire of every economist to have what he says correspond with what he does militate in favor of this unification. The very structure of economic discourse urges the moral approach.

This structure is one which indicates relationships among phenomena. The formulations of those who have contributed to the non-Newtonian fund indicate the relationship between economic inequality and the modern scourges of depression, war, and revolution. And what is a statement of relationship but a moral statement? Through the ages the ethical teachers of mankind have without exception devoted their entire activity to such formulation. The specific conditions and habits they have linked with vice and virtue, the specific concomitants of moral health and disease they delineated—these may be right or wrong. But none can doubt that all have been concerned with what Henry George termed "those deep-seated recognitions of relation and sequence that we denominate moral perceptions."[2]

Nor can anyone doubt that it is just this quest for relation and sequence in which all economists in all their elaboration of economic "principles" have been engaged from the beginning of the science. Adam Smith was concerned to discover the conditions of opulence because he knew with Aristotle that poverty of intellect and spirit is associated with poverty of surroundings. A like moral interest has animated investigators ever since. Whether it has been dismal or optimistic, whether it has seen prosperity just around the corner or the spectre of the stationary state in every increase in the population, economics has been and is an ethical science.

Every theorem of economics is translatable into an injunction. From the historical point of view, in fact, the translation process has gone the other way: economists have deduced their theorems from their reforms. In any case the dispute about the difference between statements of fact and ethical injunctions we now know to be groundless. Here is a sign reading "Live Wires." What do these words say? Do they amount to a purely descriptive scientific statement of "what is" or a suggestion, a preachment? Obviously they are both at the same time and the whole effort to make the distinction between description and injunction is ridiculous.

In just the sure way the doctrine of *laissez-faire* and the crusade against planning do not stem from Newtonian economics. They *are* Newtonian economics. Every single Newtonian statement says "is" and "should be" at the same time. Everyone now recognizes that Newtonian concern with "competitive" prices, for instance, echoes medieval preoccupation with "just" prices. Both are cost-of-production theories and both are feudal: according to the schoolmen a seller in fixing, a price "should consider the account needed to live decently in his state of life," and to Newtonian economists "cost-of-production includes ordinary profits." To recommend, a a number of the old guard have recently done, "that interest rates be permitted to find their natural levels"[3] implies—in fact, explicitly states—that interest rates *have* natural levels.

Nevertheless the fact that all economists make a distinction between science and morals is very significant. Their constant insistence on the amorality of science has a meaning. This meaning is this: The division of the world into two provinces, one that of economics and the other that of morals, amounts to a division of problems. Different procedures are competent in different fields. Economies can solve some problems; others can be handled adequately by morals.

In this relegation of problems war, depression and revolution have been excluded from economics. Exclusion from economics has meant their inclusion elsewhere. The very derivation of the word "moral" suggests the authority to whose consideration these phenomena were entrusted. It is the mores, the common sense of the community, which are held competent to deal with the most significant developments of our time.

In thus abdicating the field of war and revolution economics has yielded not for "morals" but for pseudo-science. Just as every statement of fact is also a moral injunction, so every moral injunction is a statement of fact. The mores of any community constitute its economic theories. As far as the present problems are concerned the economic theory of western civilization is simple. War and revolution, inequality and hard times, are "human nature."

The method of the mores, in other words, is not that of understanding and experimentation but of passive acceptance and lamentation. In counting a whole segment of problems "moral" the Newtonian economists have underwritten this attitude. The scourges of modern times are unpredictable and unconditioned, natural to a species tainted with original sin. There is nothing that can be done about them. The practical applications which follow from the theory that all our difficulties are due to human nature are expedients, palliatives of the same nature as the problems that they attempt to cure. Mankind learns from experience: he learns that wars are inevitable. And he learns that the to way preserve peace is to fight wars.

In opposition to all this is the growing body of habits and attitudes, stemming from the community's attempts to deal with present day problems, which has been called here non-Newtonian economics. The non-Newtonian system is also moral. The theory that depression, war, and revolution are all connected is also an injunction to break this connnection.

It follows that programs for peace which overlook or fail to take account of the connection between peace and prosperity, however high-sounding and well-intentioned, are not deserving of the description "moral." As Professor Alvin Hansen has pointed out, there are still people who do this.

> It is a tenable thesis [he wrote in 1941] that the great depression provided the Nazis with their best weapon in their successful struggle for power. Yet, despite the role of the great depression as a major factor causing the current world disaster, there are still people who talk about peace aims and a new international order leaving out of account all discussion of the problems of post-war full employment.[4]

Happily such people are today a steadily growing minority. There is a growing recognition that the greatest contribution that the United States can make to world peace is to maintain prosperity at home. The old solutions to problems are still popular: war as a means to peace is still advocated. But full employment as a means to peace, and as a preventative of the terrible costs of revolution, is an idea with adherents in every walk of life.

Adherents of the old way of thinking must inevitably change their minds, and for good reason. The complete failure of the Newtonian prescription to achieve results in the practical realm is exactly coextensive with its complete failure in scientific description. Its "theory" is no theory; its "solutions" do not solve.

Similarly the theoretical advantage of non-Newtonian economics is also a practical advantage. Just as its explanations are more satisfactory because they connect and show the interrelations among the major contemporary phenomena, so the non-Newtonian program of depressing and war-prevention is more satisfactory than the patchwork of diplomacy and politics because it eliminates the root cause of these problems. The reform looking to income redistribution "has the qualities of a true reform, for it will make all other reforms easier."[5]

Far from inhabiting separate realms, science and morals are inseparable. There is great reason to be dissatisfied with the moral stature of the present age. Everyone is dissatisfied. But to conclude from this that we have made great progress in science and technics "at the expense of" human values or "the higher things in life" is to give former ages too much credit. Such a statement also underrates the present age. It was not so many centuries ago that science and technics were in their infancy;

but the people of that day were also moral barbarians. The age which thought the world was flat also burned people at the stake.

Today we do not burn people at the stake. In general we are not so amoral and inhumane as the criers of woe try to make out. It is no accident that the period of greatest scientific development coincides with the period of human relations which, however much they leave to be desired, are still the most humane the world has ever seen. There need be no fear that if value judgments are mixed with logic and observation science in the future will make but little progress. No scientific progress has ever been unmixed with value judgments and all that we have learned in all our sciences has contributed to the making of better and more liberating value judgments. As a moral science, economics has always contributed to this liberation and will continue to do so.

Notes

1 George J. Stigler, *The Theory of Price* (New York, 1946)

2 Henry George, *Progress and Poverty* (New York, 1881) p.386

3 Economists' National Committee on Monetary Policy, *Recommendations of 53 Members on How to Combat "Inflation" in the U.S.* (New York, 1948)

4 Alvin Hansen, "Income, Consumption, and National Defense," *Yale Review*, v. 31, no. 1. (1941), pp. 119-120.

5 Henry George, *op. cit.*, p. 545.

Elgin Williams: His Life and Work

Brett Williams

Elgin Williams was born on September 15, 1922 to Elgin "Bow" and Ann (née Brown) Williams in Austin, Texas. He had two younger brothers, Joe and Bob. When he was ten, in the early years of the Great Depression, the family lost their Austin house and had to relocate to the Brown family home in Birmingham, Alabama. In 1935, they returned to Texas to live at Woodlake, a WPA camp near Houston where Bob recalled that horse-drawn sledges were used for transport over the sandy ground.

The family returned to Austin in 1936, where family lore maintains that (foreshadowing his interest in more liberal economics) young Elgin led a newspaper boys' strike. His father Bow joined protests over the Texas poll tax.

Elgin was a passionate, skilled, and prolific writer. He wrote poetry and short stories his whole life, probably a hundred academic articles, a dissertation that became a book,[a] a book-length environmental study of the Arkansas-White-Red River Basin, a novel called *The Rocks*, and the previously unpublished manuscript of *Non-Newtonian Economics*. Without the internet, armed with typewriter and carbon paper, he wrote long chatty letters about politics and economics to his many friends and colleagues. He journaled constantly about ideas and current affairs as well as personal doubt and problems. During the last months of his life, he taught creative writing to adults and wrote an illustrated story for his children.

Elgin was already a writer in high school. He contributed a regular column to the school paper called "I see by the papers…" which chronicled the rise of Hitler and Germany's aggressive geopolitics. He also covered sports. On his graduation in 1939 he won the coveted Golden Apple award for journalism, an accomplishment he took pride in. In college he continued to write about sports as major sportswriter for *The*

Daily Texan. He also edited "the home newsie" for his family and wrote them often when he moved away.

Living at home for college, Elgin earned a BA and an MA in Economics and Philosophy from the University of Texas, where he studied with the foremost institutional economist, Clarence Ayres.[b] He found Ayres an inspiring mentor and remained loyal to him for the rest of his life although Ayres was controversial, as was institutional economics, which traced its origins to Thorsten Veblen. Institutional economics stresses the importance of social institutions in shaping economic behavior.

Postwar economics was the most powerful and mainstream of the social sciences. The most conversative of social scientists, many economists worked for the government. Because detached, quantitative analysis was the discipline's calling card, neoclassical economists did not consider the institutionalists "real" economists, for they were interested in non-market influences on the economy and a little too liberal. Elgin's job prospects long depended on how the hiring faculty felt about institutional economics.

In college Elgin was active in the Academic Freedom movement which responded to the firing and disciplining of liberal and leftist scholars. He worked and wrote hard about the cooperative movement and served as President of the *Daily Texan* Guild. He produced *RoundUp*, a newsletter supporting cooperation with the war effort. When grilled about his student activism later, he noted that he was never disloyal but that some of his campaigns were connected to the Southern Conference for Human Welfare, which was listed later by the Attorney General as a Communist-front organization. He wrote that "there may have been Marxists among us. I myself was partial to Veblen." Also during his college years, Elgin became a passing fair tennis player.

The 1930s and 1940s were among the most progressive years in the country, but after 1945 the anti-Communist backlash began. Thirty states required academics at public universities to take loyalty oaths or lose their jobs. Being a member of the Communist Party was grounds for not hiring, for dismissal, and for denying tenure or promotion. Communists were not protected by the standards (such as they were) of academic freedom, because, it was alleged, they claimed the right to instruct youth to embrace a philosophy advocating the violent overthrow of the government.

After the passage of the draconian Internal Security Act in 1950, surveillance, blacklisting and red-baiting pervaded universities. Ayres' students and allies faced many problems getting and keeping jobs. They were thought to be too close to socialist ideas. Applications often asked about leftist associations and about military service. The federal employment application asked about the use of intoxicating beverages. Elgin was one of many young people whose activism came to haunt them in the 1950s.

Elgin was anxious to fight in World War II and tried many ways to enlist, but even the Coast Guard rejected him owing to his asthma. Masters degree in hand, he moved to Washington, DC in the war years to plan postwar food relief for Europe in the Department of Agriculture under the great progressive Henry Wallace. This contribution to the war effort did not relieve him of the shame and embarrassment of not having fought in the war, which he had to explain in every job application. He eventually was accepted in the army but ejected after three days, whereupon he decided to go back to school.

In 1944 Elgin moved to New York to work on a PhD in Economics from Columbia University, one of the few institutions in the country granting doctorates in this discipline during that period. He hated Columbia, which was ruled by the neoclassical mainstream economists and where the Texas students were treated with suspicion.[c] One is struck, however, by how little time he spent getting his PhD. While he was in New York he taught at Columbia for a year and NYU for two years. He moved to Seattle in 1947. His dissertation (*The Animating Pursuits of Speculatio*n) explained how land speculation drove much of the politics behind the annexation of Texas to the United States. He focused on the psychological bent of leaders such as Sam Houston as expressed in their speeches and letters. He did not express much interest or satisfaction with his dissertation. It seems almost an afterthought unconnected to his real writing.

In 1947 Elgin accepted a teaching position at the University of Washington and moved to Seattle with his new wife Colleen (née Ingram) from San Antonio. An intellectual in her own right, Colleen had to leave the graduate program in economics at Barnard when she became pregnant with their first child Brett and followed Elgin to Seattle. Colleen did not work outside the home until Elgin died, and she was not really suited to being a house-wife. He wrote that he saw himself as a synthesizer of the social sciences. Elgin had dear friends who were anthropologists: His college roommate, Ed Jelks,[d] was an archaeologist who later gave Brett her first job. At Columbia Elgin became close friends with the famous ethnographic filmmaker Robert Gardner,[e] and sociolinguist Dell Hymes[f] was Brett's first babysitter. This may be why, in 1947 and 1948, he published two articles in the *American Anthropologist* eviscerating the work of the leading lights in the field. It was a daring—perhaps reckless—move for a young scholar.

He published "Anthropology for the Common Man," a critique of Ruth Benedict's cultural relativism. Elgin noted that Benedict's book *Patterns of Culture* sold for 25 cents, bringing anthropology to "the man on the street."

Elgin found her cultural relativism problematic given recent confrontations with Fascism. He understood that her calls for tolerance referred to tolerance of "Negroes, Jews, and homosexuals," but noted that the average citizen will remember the war, which provided "the greatest mass education in cultural divergences the world has so far witnessed…The Common Man asks the question, 'How shall we straighten out our poor country and our chaotic world?'" Tolerance, "anthropology's root and core" is irresponsible. Elgin wrote that Benedict subverted her call for cultural relativism with her obvious preference for non-violent, cooperative, equal, life-affirming cultural practices.

This fresh, over-confident takedown of an eminent anthropologist by an economist barely out of graduate school was ill-received in professionsal circles, as was an article co-authored with Dorothy Gregg[g] and published an article in the *American Anthropologist* on "The Dismal Science of Functionalism." The authors argued that both functionalist anthropologists and orthodox economists naturalized existing institutions and justified bizarre and hurtful practices by seeking to understand the social functions or purposes they supposedly serve. To the structural functionalist society was like the human body, an organism whose parts played complementary roles for the whole, existing in harmony and working together for the good of the body. Just as your hand would not snatch food out of your mouth, but would rather cooperate in feeding your body, all the institutions in a society work together for the good of the whole group. An anthropologist's role is to tease out the purpose of each institution and its relationship to others.

This view of culture is static and conformist, wrote Gregg and Williams. It ignores the diversity of views and experiences within a society, the conflicts that do occur between social groups, and the contradictions that riddle all societies, particularly under capitalism. Cultures change constantly, and unequal power pervades institutions. Gregg and Williams argued that structural-functional anthropologists' stress on social order meant that they could not imagine or contribute to social change but were reduced to maintaining the status quo, advising people in power, supporting colonial governments, and consulting on dubious state projects like the wartime internment of Japanese Americans, which shamefully hired anthropologists as consultants. Major anthropologists, notably Alfred Kroeber, [h] fired off rebuttals ("a veritable bolt of lightning," as one historian has described his riposte), but Elgin found some allies in the discipline. He began correspondence with Oscar Lewis,[i] who tried without success to find jobs in anthropology for him, and became a friend and trusted colleague.

The young family, circa 1951. At left, Elgin's parents flank his brother Robert and his son, also Robert, as former bobby-soxer Colleen, tricked out in fashionable saddle shoes, looks on approvingly. Elgin himself strikes a characteristically jaunty pose, dandling daughter Brett on his knee.

The University of Washington was not a happy place for him, because neoclassical economists were firmly in charge. Three communist professors were fired during Elgin's time at Washington, and he fought for them in the name of academic freedom. In 1948 he wrote a heart-breaking array of applications for a new job.

In 1949 the family moved to Portland, where with the help of his friend Seymour Fiekowsky,[j] Elgin secured a position at Reed College. His son Bobby was born in 1950. That year he published "The Morality of the Machine" (chapter XIX in this volume) as a stand-alone article in the February 1950 issue of *The Scientific Monthly*. He became involved in an academic freedom campaign on behalf of fired Professor Harry Bridges.[k] He did not last at Reed—the administration dismissed him on the ostensible grounds that his classes were under-attended owing to the diversion of potential students to the Korean War, a transparently flimsy excuse for shedding this unabashed radical during this period of political reaction—and he was obliged to search anew for another job.

Elgin's search finally led to a temporary position at North Texas State Teachers' College shared between the Sociology and Economics faculties, orchestrated by his good friend Hiram Friedson. North Texas State Teachers' College was a rare hive of Ayresians. The family moved to Denton, where Elgin's daughter Lucy was born in 1952.

Elgin began reading voluminously in anthropology and teaching his sociology classes as anthropology. He planned anthropological research in Denton. He became the principal researcher involved in the excavation of an ice age mammoth, a 10,000 year old *Parelephas Columbi* discovered near Denton on the Ernest M. Calvert farm.

Elgin was excited about how the excavation might contribute to popular education in Denton, offering residents a deep past that included them and would be easier to relate to than, say, the Pyramids. Participating in the excavation and in the local archaeological society would give Dentonites the chance to explore technology and culture in the light of recent changes in their own lives such as television. Elgin produced an Archeological Festival on March 23-28 1953, including a celebration of earth-moving equipment then and now, films by Robert Gardner, lectures by archaeologists, and a picnic!

Mammoth undertaking: Elgin supervises the excavation of an ice age pachyderm in Denton, Texas; son Bobby helps secure the site against the depredations of souvenir hunters and rival paleantologists.

Despite the success of the Archaeological Festival and enthusiastic student reviews, Elgin was dismissed from North Texas, perhaps for erratic behavior, possibly for politics. That academia could not find a place for this brilliant and original young scholar is one of the great mysteries of Elgin's life. In his letters about jobs, we find some clues. Elgin had a loyal network of dissident economists who kept each other informed of job prospects. After 1951, many of his friends believed they would never work again. But Elgin also made himself an easy target with wild behavior and his refusal to publish in traditional journals for economists.

Anti-communist hysteria silenced an entire generation of radical and progressive academics. The emerging conservative pro-business, anti-government political and social climate affected liberal economists in teaching and textbooks, and the modernization movement in economics consciously revamped programs to ensure they were teaching the most up to date neoclassical theory using appropriate mathematical tools. The descriptive-institutional approach nearly disappeared.

The descriptive-institutional approach was on full display, however, in a project Elgin took on for the Army Corps of Engineers to study the Arkansas-White-Red River Basin over time. This was an anthropological and history project cleverly treating the river basin as the unit of analysis for studying natural resources, ways of making a living, ecology, and Texas' needs for roads, houses, dams, reservoirs, schools, and hospitals. He began with indigenous cultures in the Basin, visited archives for historical documents, and travelled extensively in the Basin to conduct interviews and do participant observations. The resulting manuscript was a remarkable example of holistic Boasian[l] anthropology as well as institutional economics, beginning with the natural environment, building on the environment with a discussion of technological adaptation, innovation, and transformation, then looking at the in- and out-migration of people who perceived and used resources differently, from the corn and buffalo culture of the earliest inhabitants through the present day.

He submitted it in 1952 after working on it for two years and being utterly absorbed and intrigued by it as an intellectual project. The Corps was generally pleased with this comprehensive and insightful study, except for the portrayal of indigenous people and the early history, which they felt should be condensed. The Basin project kept him productively occupied during a stressful period in his life.

The Williams family struggled financially. Elgin's journal entry of November 5, 1951 (when he was halfway through the Basin project) is a remarkable record of consumption by pre-credit card American families on the verge of but not quite making ends meet:

November 5, 1951

Dr. Williams, will you tell the committee how you manage to receive a paycheck of $383.44 on Nov. 3, borrow another $100 from the Credit Union on the 4th, and have nothing in your bank account on the 5th? You understand the question—it involves your ability to disburse the sum, in round figures, of $500 in two days?

A. Well, I bought this dog. Or rather paid the first $15 installment on her.

$500 – 15 = $485

* *I forgot to say that the dog's name is Anna Livia Plurabelle*[m]

I gave my wife what is euphemistically termed her $100 "housekeeping allowance" for the month. That left $385

I paid Abe Melton $40 – because he had lent me some money a couple of months ago. I don't remember just how this was spent. Leaves $345

Last month I bought a coat and Colleen a pair of shoes. These "investments" resulted in a bill at a dept. store which I paid, leaving $285

I owed Ona Kay Stephenson $40 for typing some chapters for a "book" I hoped to sell to a certain publisher – this month I paid her part. Leaves $255

I bought my boy a snowsuit, my girl a Thurber-like cap and mittens. At a place called "Young Moderns." $235 remaining

"Charities" nicked me for $10. Leaves $225

"Utilities" – including a long distance phone call one night when I was "drunk" – came to $25. Leaving $200

Out of this I made a $30 payment on a stove and refrigerator bought on the "installment plan." $170

A $10 grocery bill at a "little place" we patronize toward the end of the month when our money runs out: leaves $160

$5 for "Vitamins" for the kiddies (anything for the kiddies): $155

Which reminds me of Brett's $20 tuition at the "Craft-Play School": $135

Don't forget the "rent" of $75: $60

The $15 "milk bill": $45

A $10 bookstore bill – that can by a little stretching be counted as a "cultural" item—note that it is the only one on the list: $35

Gasoline – when we run out of gas and money at the end of the month, we charge gas – as per groceries at the "little store" mentioned above: $35, leaving $0

By 1954 Elgin had lost his last academic job. "Epitaph: How could I possibly have muffed life so?" he wrote in his journal. He returned to San Antonio, where Colleen's father (and son Bobby's namesake) made him an Executive Vice-President of the family business (Acme Iron Works), which was booming from wartime contracts in airstrips and postwar highway construction with its signature Ingram Rollers[n] among other machines.

In 1949 he had written that machines were a more appropriate source of morality than the capitalist price system, where extreme inequality warped the workings of the market. In contrast, the machines' relationships were precise and straightforward in rewarding effort and efficacy and matching supply with demand. In May 1951 Elgin had given his American Economic History class one question to answer for their final exam, the question that began their course:

> What are the sources of America's preeminent industrial machine? ...Your answer should be original, employing, if you wish, appropriate invented terminology, concepts, period-classifications, and historical patterns, but it should also codify and synthesize the relevant materials of the course, especially those dealing with World War I – World War II period.

Notwithstanding his great affection for machines, the pride he took in America's technological prowess, the hope he had for a more egalitarian society made possible by mass production and consumption, and unlike his son Bobby, who thrived at Acme Iron Works, Elgin never enjoyed or adjusted to working there. He was angered by shifty labor practices and the treatment of Mexican workers. He did not get along with Bob Ingram, who was himself not partial to New Dealers. He wrote angry poems about the business, the crushing of democracy and the human spirit under capitalism, and the conditions of wage slavery which brought poverty and misery to the masses.

He also published an optimistic, forward-looking article in the *Texas Contractor* trade magazine proposing massive government support for new construction: Texas, he wrote, needed roads, houses, dams, reservoirs, schools, and hospitals. The state should immediately launch the biggest building program in its history in conjunction with private business, he argued. This short piece brought together his training in economics and his support for massive production that could provide full employment and reduce inequality. He urged his readers to support a public works program and especially the interstate highway system initiated by President Eisenhower.

But despite the possible convergence of his intellectual interests and sympathies at Acme, he felt alienated and useless in this position. In less than a year he was commuting from San Antonio to Austin to work for his father Bow's small insurance company. He wrote in his journal on September 14, 1955:

Failure: A Comedy

> I came home to Austin, Texas, the city of my birth, eleven years after escaping it, came home broken, miserable, the flower of my self-confidence wilted and stained. I came home to live with my family, as there was no one else to take me in at the age of thirty-three, after a year of unemployment which had followed a decade's career in economics wherein I had lost five jobs in a row.

Despite his despair, in the fall and winter of 1955 Elgin produced a flurry of ideas and projects. He rented a piano so that Brett could teach him to play when he returned to San Antonio on weekends. He fired off letters to friends and in-laws, to Senator Lyndon Johnson, and the University of Texas about creative ways to insure their homes, government buildings and offices. Ever committed to popular education, Elgin taught an adults' creative writing class at Austin High, which he hoped would become a "gathering place of Austin intellectuals." He wrote to the State Department about organizing a delegation of insurance agents to the Soviet Union to compare institutions and practices and to see how insurance worked under communism. He wrote to J. Frank Dobie[o] proposing a film on his work and life.

Elgin had by that time also taken up painting, filling his newly built "atelier" at the San Antonio house with canvases and oils. It was a strange turn for a man so in love with words. When 7 year-old Brett expressed distress because the so-called school safety patrols bullied her at recess, Elgin painted a comic scene of her schoolyard with fat, ugly, lazy patrols monopolizing the seesaws so the children couldn't use them. This painting brought her great comfort, for she feared the patrols. He also pursued photography, somehow working in several trips to Mexico shooting Ingram Rollers posed before Aztec architecture.

He organized a Renaissance Gallery in Bow and Ann's house featuring local Austin artists, Elgin's own paintings, those of his sister-in-law Kitty (an actual painter), and entries by Brett (*Crayon: Woman in Green Dress)*, Bobby (*Tempera: Two Scholastics*), and even 3–year-old Lucy, whose submission (*Abstract of Brother Bobb*y) sold for $1.50.[p] Kitty supported him sweetly and came down for the holiday opening with Elgin's younger brother Bob.

In January 1956 Elgin wrote and illustrated his last book, "Are you going to Paris?" for his children. "Are you going to Paris?" introduced three friends: Elephant, Duck and Turtle lived in New York and enjoyed going out to restaurants in the city. One day they went to Paris and fell in love with the art there. When they returned to New York they were homesick for Paris, but they figured out a way to bring Paris there by collecting art. He urged his readers to make art and collect art themselves and to visit museums including his Renaissance Gallery.

Two months after the festive opening of the Renaissance Gallery, on February 29, 1956, Elgin died from a terrible medical mistake at a hospital in Galveston. He was 33.

Editors' Notes

Preface

a Here Professor Williams makes his key criticism of the old "Newtonian" economic theories of the time: failure to explain major contemporaneous trends and events. He is likely referring to John Maynard Keynes when he speaks of the "most advanced economists."

Chapter I

a Professor Williams again criticizes the old "Newtonian" economic theories of the time, for their failure to explain major contemporaneous trends and events.

b Professor Williams defines a "Non-Newtonian" economist as one who seeks to understand and explain the economic underpinnings of such major real world issues, as opposed to simply categorizing economic activities or analyzing marginal changes in demand curves in particular markets.

Chapter III

a This chapter of the book (as well as succeeding Chapter IV) roundly criticizes economists of the era for presenting themselves as objective value-free scientists, for not taking political stands, and for not attempting to provide economics-based explanations for the major issues of the day (the Great Depression, the rise of the Third Reich, World War II). For example, Professor Williams criticizes Albert Meyers, author of a much-used textbook of the day—*Modern Economics* (New York, 1942)—for writing:

> The economist…passes no judgment on the merits of [desired results]. For instance, economics cannot prove whether or not this country would actually be a better place if everyone had absolutely equal wealth and absolutely equal income…

Chapter IV

a "In effect social scientists who profess to fear 'scientific dictatorship' equate the state of being 'under doctor's orders' to that of being under Hitler's orders." We may assert with some confidence that Professor Williams would be astonished and dismayed at the tens of millions of Americans in 2022 who stridently and *explicity* subscribe to this equivalence, and properly contemptuous of the cynical office-holders, members of a political party now fizzing with rabies (in Martin Amis's memorable phrase), who spur on this poisonous delusional thinking. [RC] *b* Little-remembered today, *The Races of Mankind*, by Ruth Benedict and Gene Weltfish, was published in 1943 as a pamphlet intended for American troops as they fanned out to theatres of war in which they could be expected to encounter unfamiliar cultures. The work's anodyne message of "all men are brothers" was ill-received by the military's officer caste—then, as later, dominated by unregenerate Confederates—since the obvious subtext of racial equality was highly unpalatable to them. In asserting that its authors "would most certainly not be immune from persecution in the event of a rightest political upheaval in the United States," Williams was shrewdly prescient: Weltfish was later hauled before McCarthy's Senate committee and grilled about her co-authorship of the "subversive" pamphlet. That same year she was sacked from Columbia University, where she had taught since the 1930s, and found herself blacklisted in academia for the remainder of the Fifties. [RC]

c While the preceding confuses several concepts and is a bit hard to follow (exactly what are the "problems" in "the very problems it attacks"?), we are very clear that Professor Williams believes that his economist contemporaries did not adequately question existing capitalist institutions.

Especially when the ascendant country in the world as of this writing is China, which by its own declarations is not a capitalist country, the focus of US academic teaching on capitalism of which Professor Williams complains is very questionable. See generally, *Understanding Socialism, Democracy at Work*, 2019, by Richard D. Wolff, in which Professor Wolff explains that despite his economics education at Harvard, Stanford and Yale universities, he was never presented during his formal economics education with any possible alternatives to the capitalist economic system.

Chapter V

a This may be overly harsh on economists. Even Adam Smith wrote in human-centric terms very close to Professor Williams' conclusions later in this book. See *e.g.*:

> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. *The Wealth Of Nations*, Book II, Chapter II, p.329, para. 106.

Chapter VIII

a Growing up, I always remember seeing a curious biography in our family library entitled *The Life of John Ruskin*. Ruskin was an early proponent of using political economics as a force for human well-being. In his preface to *Unto This Last* (1862), Ruskin recommended that the state implement standards of service and production to guarantee social justice. Ruskin believed that government should provide youth-training schools (specifically teaching health, 'gentleness and justice,' and viable trade skills); "manufactories" and workshops; employment for the unemployed; and pensions for the elderly and the destitute, as a matter of right, received honorably and not in shame. Many of these ideas were of course later incorporated into our modern welfare state.

Chapter IX

a Much of this Chapter IX is devoted to enumerating the evils of private property. Professor Williams makes the case at some length that the existence of private property creates inequality by definition. This is hard to argue with—the homeless man has no right to live in my locked and alarmed house, and is thus uneconomically unequal to me. One must add here that, whatever its evils, private property is an inevitable, basic and ancient human institution (think of the larger ape confiscating the smaller ape's bananas). Professor Williams could have spent more time on how private property could be effectively regulated (e.g., tax regimes—see the brief mention in Chapter XVIII), rather than on enumerating its basic unfairness and other evils.

b Professor Williams correctly notes that capitalists naturally use, and abuse, their state-supported power to amass all manner of property. In his important book *Saving Capitalism for the Many Not the Few* (Alfred A. Knopf, 2015, page 23) author Robert Reich explains:

> In sum property—the most basic building block of the market economy—turns on political decisions about what can be owned and under what circumstances. Due to the increasing wealth and political influence of large corporations as well as the subtlety and complexity of the contours of intellectual property, these political decisions have tended to enlarge and entrench that wealth and power. The winners are adept at playing this game. The rest of us, lacking such influence and unaware of its consequences, often lose out. As we bicker over whether we prefer the "free market" to Government, the game continues and the winnings accumulate.

For some current examples of how modern property rights are obtained, consider the expansion of intellectual property rights in the United States. Industry lobbyists obtained the Copyright Term Extension Act of 1998 to protect the rights of The Walt Disney Company and similarly situated enterprises to maintain their copyrights on creative works for a huge 95 years from the first publication. It is difficult to see how this spurs further creativity from the original author. Similar games are played by Big Pharma with prescription drugs. For example, the US

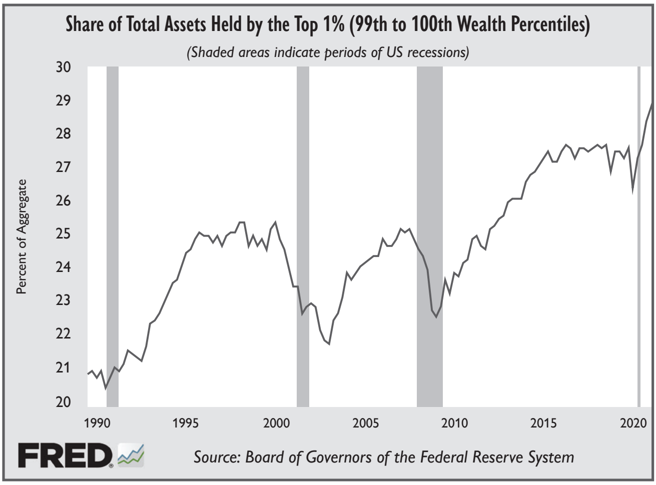
Patent and Trademark Office often allows new patents with new exclusive use periods to be granted for only minor modifications to pre-existing drugs. This allows companies like Pfizer to continue to profit. Similarly, industry lobbyists succeeded in obtaining a modification to the patent laws allowing vaccines manufactured from nature to be patented. That's created great innovation in vaccines (Pfizer and Moderna developed life-saving COVID 19 vaccines lickety-split), but also greatly enriched Big Pharma at the expense of consumers.

c We wonder why the less commonly used term "privative" is used. Rather than introducing jargon and discussing the "system of privatives," why not simply say "the institution of private property"? Perhaps this would be less of a defect had the author somewhere clearly defined the "system of privatives" as the "institution in any society ('community') of arms-enforced laws and traditions establishing and protecting the ownership of all forms of private property, that is subject to direction and control by individuals or groups of individuals."

d During the Second World War, still very much in living memory at the time *Non-Newtonian Economics* was written, the Office of Price Administration, operating under the wartime Emergency Price Control Act of January 1942, established a nationwide regimen of rationing, which for the duration of the conflict served to limit the public consumption of a range of products, among them sugar, coffee, meat, dairy products, firewood, tires—and gasoline. To receive a gasoline ration card, a driver was required to demonstrate to the OPA a legitimate need for the fuel, and also to certify that he owned no more than five automobile tires. The cards were issued on a tiered system, and vehicles were required to display on their windshields a letter designation bearing their priority, "A" being the most common and restrictive of these and the coveted "C" entitling the bearers—among them medical personnel, clergy, "essential" workers, mail carriers, armed forces reporting for duty—to a more generous allotment. No footnote would have been required to explain this to the readership of 1948. [RC]

e One of the first principles taught in North American law school Property Law courses (at least in the 1970s) was the "Law of Capture." The idea here is simple: if by hook or by crook you got your hands on something, you thereafter owned it, with the full force of the law behind you. Or as children put it: Finders Keepers, Losers Weepers.

f Professor Williams here describes a vicious cycle, in which differences in economic power are multiplied and exacerbated under capitalist systems. If one is born comparatively wealthy and powerful (with or without weapons and/or state backing), one is then in position to demand labor from those comparatively less fortunate



(in exchange for food, security, money, etc.) to build whatever one thinks worthwhile, in hopes of becoming richer still. Hence one simultaneously becomes an employer, a "job creator," as well as a capitalist, investor and innovator. So the transition from inequality to capitalism seems logical and inevitable.

Based on quite extensive data, Thomas Piketty very persuasively argues in his 2013 *pièce de résistance, Capital in the Twenty-First Century*, that capitalism as a system *necessarily* leads to greater inequality. And of course, inequality today in the United States has reached the highest levels since the Gilded Age of, say, 1870 to 1900, as the Federal Reserve graph above shows.

g Professor Williams' view of businessmen (i.e., suppliers in markets) is grim here. He paints them as willing to produce useful goods for only so long as it profits them to do so. Where poor folks cannot afford his goods, in Professor Williams' view, he doesn't investigate ways to make it possible for them to do so. Rather, he simply turns to lower hanging fruit to further enrich himself. He turns to new property acquisition, either by "engrossing" public resources or wresting property from other businessmen. "Engrossing" is a medieval word for enclosing public pasture, or buying the entire stock of or cornering a given market. While Professor Williams may have a dim view of capitalists, there are certainly countless current examples of "engrossing" of public property: staking claims under the Mining Law of 1872, using rivers as waste dumps for private factories, Gulf of Mexico oil leases, FCC radio licenses, patents granted on natural plants, etc.

h In this passage Professor Williams brings in the basic Keynesian idea that "your spending is my income." Professor Williams discusses J.M. Keynes in this book mainly in the context of how the Treaty of Versailles affected world economics. But Keynes of course had much to say about supply and demand and the business cycle. For a good discussion of how Keynes remains relevant, particularly as to money supply, see the chapter on "Depression Economics" in Paul Krugman's *End This Depression Now!* (Norton, 2012).

i Professor Williams here buttresses his claim that producers are quick to cut production, ofttimes unnecessarily, by opportunistically calling upon Puritan ethics of privation, thrift and saving for a rainy day, at least when such virtues are to be applied to "impoverished consumers."

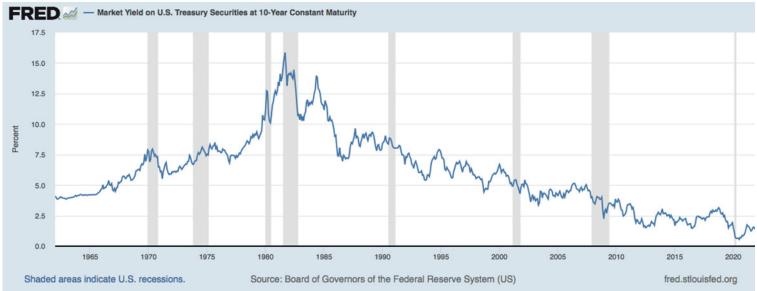
Chapter X

a The OPA was FDR's Office of Price Administration. Professor Williams here criticizes the federal Government's kindness to big business, even during the New Deal.

b Professor Williams does not mention John Maynard Keynes or monetary theory in this Chapter X on the business cycle. Keynes established (among other things) that when "the poverty of consumers" or any other cause depressed demand such that production lagged and an economy suffered, a government might be well to step in with monetary injection to "prime the pump" and get the economy moving again.

For a beautiful example of how such monetary policy works in a very simple example, see the Capitol Hill babysitting co-op example in *End This Depression Now!* In this example of a mini-economy, supplies of services had dried up (ie, the economy had slowed down) because there was not enough money supply, in the form of exchangeable scrip credits which entitled one couple to obtain babysitting services from another couple. It appeared that when couple's hoard of credits was reduced, rather than spending their last available credit, they would stay home and not request babysitting services, thus hoarding their scrip, causing the slowdown. Once the co-op's organizers decided to "expand the money supply" by simply handing out additional scrip to all participants, the available supply of babysitters "magically" increased.

In the decades since *Non-Newtonian Economics* was written, monetary theory and policy has taken on a vital role in our economic lives. As of 2022, central bank pump priming (by keeping interest rates low and otherwise) is now so far expanded and expected in developed nations that the central bankers may have pretty much forsaken one of their few tools to fight serious economic downturns in the future (see graph on page 203).



Chapter XI

a Here the author equates the "system of privatives" with free enterprise. But he may be confusing concepts here: the Chinese in 2022 have many privatives, but do they have free enterprise as we in the USA understand it?

b For many years it was true that the USA found the need to "force its wares" on other markets, because of the "poverty of consumers" at home. Thus,

> Col. Charles Denby, a railroad magnate and an ardent expansionist, argued [in the 1890s]: "our condition at home is forcing us to commercial expansion…day-by-day production is exceeding home consumption…we are after markets…"

—As quoted in *Addicted to War: Why the U.S. Can't Kick Militarism*, by Joel Andreas (AK Press 2015) quoting David Heale, *US Expansionism: The Imperialist Urge in the 1890s* (University of Wisconsin Press 1970), page 122.

But then, commencing in about 1985, the USA began to move massive amounts of production to Japan, China, Mexico and other low wage countries, and unemployment and underemployment necessarily began to increase in the United States, especially in the Rust Belt. Here the US hardly "forced its wares upon or repulsed the offerings" of the Chinese, but enjoyed the sugar high of cheap goods at Walmart and Amazon for decades.

Chapter XII

a The editors are both of them mystified by this assertion as it is phrased here. [RC]

Chapter XIII

a The armed outbreaks the USA has been experiencing since the election of Donald Trump in 2016 and the death of George Floyd in 2020 (including the January 6, 2021 attack on the US Capitol) are part of a regular pattern.

b The more one studies Hitler's rise to power, the more one is convinced his appeal to Germans in the 1930s was very much based upon massive unemployment and other failures of capitalist economic systems, and only secondarily upon anti-semitism or militarism. Perhaps one can say that Hitler's invasion of Poland was a logical follow-on to his general employment program.

c Dwight D. Eisenhower famously disagreed with the idea that war served no one's economic interest when he warned us of the military-industrial complex in 1961.

d Professor Williams understandably makes much of this revealing "admission against interest" by vested capitalists. A review of NAM's current website in 2021 reveals no similar admission or suggestion currently.

e Franklin D. Roosevelt (who is not mentioned once in *Non-Newtonian Economics*) more or less got this in the 1930s, and his administration began a series of job-producing programs, including the Hoover Dam, the Works Progress Administration (WPA), Federal Project Number One and the Civilian Conservation Corps.

f Speaking to a gathering of workers in Berlin on 10 December 1940, Adolf Hitler said of wealthy capitalists:

> The only thing that matters is the existence of a few hundred gigantic capitalists who own all the factories and their stock and, through them, control the people. The masses of the people do not interest them in the least. They are interested in them just as were our bourgeois parties in former times—only when elections are being held, when they need votes. Otherwise, the life of the masses is a matter of complete indifference to them.

Another excerpt from the same speech:

> I wish to put before you a few basic facts: The first is that in the capitalistic democratic world the most important principle of economy is that the people exist for trade and industry, and that these in turn exist for capital. We have reversed this principle by making capital exist for trade and industry, and trade and industry exist for the people. In other words, the people come first. Everything else is but a means to this end. When an economic system is not capable of feeding and clothing a people, then it is bad, regardless of whether a few hundred people say: "As far as I am concerned it is good, excellent; my dividends are splendid." However, the dividends do not interest me at all. Here we have drawn the line.

It may accordingly be argued argued that capitalism per se might bear considerable blame for the rise of the Third Reich.

We can only imagine what Professor Williams would have thought about how post-Reagan Republican tax law changes and the internet have further distorted capitalism, in what former President Bill Clinton referred to as a "winner-take-all, casino economy." As of 2022, for example, Amazon founder Jeff Bezos had amassed a personal private fortune of some $200 billion, while 50,000 persons were counted as homeless in the Los Angeles, California area.

Chapter XV

a Pretty much everyone in wealthy countries now have more computing power at their fingertips than the Apollo astronauts had at their disposal during the 1969-72 moon landings. But our means and methods for sharing out, for distributing all the goods (old and new) of the planet are still utterly dependent on who "owns" what, on the "system of privatives." And given increasing wealth and income inequality, in 2022 the country is far more feudal than it was in 1947.

b "Faineant" here basically means "idle." This is reminiscent of our culture's current adulation of billionaires. Elon Musk and Mark Zuckerberg are viewed by many fans as wonderful "job creators," not clever businessmen who owe much of their success to being in the right place at the right time with the right attorneys.

c At the same time, the need for government bond financing has sometimes stopped wars, or determined the loser. See Niall Fergusson, *The Ascent of Money* (Penguin Books 2008, p. 24), quoting J.A. Hobson from 1904:

> Does anyone seriously suppose that a Great War could be undertaken by any European state, or any great State loan subscribed, if the house of Rothschild and its connexions set their face against it?

Fergusson goes on to write "Without wars 19th century states would have had little need to issue bonds" and "…the Rothschilds opted not to back the South" by bond purchases during the US Civil War, which was a major factor leading to the South's defeat.

Chapter XVI

a The man quoted, George Stigler, a leading Chicago School economist, went on to win a Nobel Prize in Economics in 1982.

b Here Professor Williams repeats his claim, made earlier in Chapters IX and X, that inequality gives rise to most important [negative] political events. He then links the causes of such events to the tendency of capitalists to cut production when caused by the inability of poor consumers to pay. But he is somewhat unclear as to which precisely which sorts of inequality and which economic conditions bring about these changes, which is the chicken and which is the egg.

c A broad assertion and a broad pronouncement indeed. Another, slightly longer formulation might be:

The general unifying theory of modern political economics is: the existence of private property is inequality by definition, resulting as it does in richer and poorer persons. Many wealthier individuals naturally seek to further increase their wealth by any means necessary, including production of goods for sale and by exploiting state power. Call this system capitalism. But the inherent contradictions in the system (starting with the unequal sharing of production profits, and exacerbated by the business cycle, the need to cut production when there are not enough moneyed consumers to absorb production) create instability, periods of bust and boom, which in turn lead to depressions and wars.

Chapter XVIII

a Increasing taxes on the wealthy to retire government debt (as where taken on to finance a war) was supported by Professor J.M. Keynes long ago in *How to Pay for the War: A Radical Plan for the Chancellor of the Exchequer* (New York, Harcourt, Brace and Company, 1940).

Professor Richard Wolff wrote on January 31, 2020 (www.commondreams.org/views/2020/01/31/government-debts-class-swindles):

> In modern capitalism, governments routinely borrow money. They do this to finance budget deficits that occur when governments raise less in taxes than they spend. Governments also borrow to invest in long-term projects of economic development. The swindling occurs when the lenders and borrowers—usually private financiers and career politicians—negotiate loans that serve their own particular interests at the expense of the taxpayers who eventually cover the costs of repaying the government's loans plus interest on them.
>
> If governments raised enough taxes to cover their desired levels of spending, they would not need to borrow. Taxes imposed on the wealthiest corporations and individuals would be the most equitable strategy. The corporate wealthy protest, of course, threatening that if taxed, they might reduce their contributions to the economy (investing less, etc.). Most government politicians sympathize with those protests. Many come from the ranks of the wealthiest corporations and individuals (or aspire to join them). They share similar ideologies and depend on campaign donations from them. Compliant politicians typically exaggerate the negative aspects of taxing corporations and the rich. They rarely compare them to the negative effects of the alternatives: taxing middle and lower income people more or cutting government spending.

b There is some current optimism that liberal/leftist policymakers are finally starting to focus on production, on the supply side, with a view to obtaining progressive results. See, e.g., Ezra Klein, "The Economic Mistake Democrats are Finally Confronting," *New York Times* September 19, 2021. Using drug manufacture as an example, Mr. Klein notes that while controlling prescription drug prices may be a good thing (thus making it easier for consumers to create demand for more units), governments should also work to improve supply by funding R&D, offering prizes and other incentives for specific new drugs, and funding clinical trials. "Focusing on the need to make new drugs affordable while ignoring the need to make more of them is like trimming a garden you've stopped watering."

c In general, there is a huge current public movement to more fairly tax the rich in America, which is very much supported by our history. See for example Paul Krugman, "Tax the Rich, Help America's Children," *New York Times* (Oct. 25, 2021):

> We are also, arguably, the nation that invented progressive taxation. America has had progressive income taxes and estate taxes—that is, taxes that are levied at a higher rate on large incomes and estates—since 1916.
>
> It's notable that the early proponents of these taxes didn't view them simply as ways to raise revenue. They also explicitly called for taxes on the wealthy as a way to limit inequality, and in particular to prevent the emergence of a hereditary oligarchy. Thus in 1905 Theodore Roosevelt argued that it was essential to prevent the "inheritance or transmission in their entirety" of "fortunes swollen beyond all healthy limits," and in 1907 he called for a "heavy progressive tax" on estates to achieve this goal.

Professor Williams would likely approve of Senator Warren's 2020 proposal for a wealth tax on billionaires, as well as President Biden's drive with OECD countries to set a global corporate minimum tax rate of 15%. See *New York Times* November 11, 2020, "Dealbook, Running the Numbers on Elizabeth Warren's Wealth Tax"; *New York Times* July 20, 2021, Liz Alderman, Jim Tankersley and Eshe Nelson, "U.S. Proposal for 15% Global Minimum Tax Wins Support From 130 Countries."

With regard to the specific need to tax undistributed profits and capital gains, little progress has been made here since Professor Williams wrote *Non-Newtonian Economics*. See, *e.g.*, "Buy, Borrow, Die: How Rich Americans Live Off Their Paper Wealth," by Rachel Louise Ensign and Richard Rubin, *Wall Street Journal*, July 13, 2021.

For an excellent general description of how the wealthy dodge taxes, see David Cay Johnston, *Perfectly Legal: The Covert Campaign to Rig Our Tax System to Benefit the Super Rich—and Cheat Everybody Else* (Penguin Books, 2003).

Chapter XIX

a This chapter in the manuscript has been damaged to the point where its entire content cannot be reliably reconstructed. However, two years after its composition Professor Williams published, under the same title, an enlarged essay treating the same themes in the February 1950 issue of *The Scientific Monthly*, and this is here included in place of the missing chapter of *Non-Newtonian Economics,* representing as it does sundry refinements upon the author's earlier thoughts. [RC]

b In the understanding of the editor, this essay may be summarized as follows:

The American free enterprise system, with its reliance on consumer preferences in allocating resources (call it the "price system") is flawed and creates great danger. Such flaws notably include 1) its anti-democratic tilt, as well as 2) its recurrent tendency to collapse. The price system is anything but democratic: a poor person has no votes at all while Jeff Bezos has 300 billion. As elsewhere noted, Professor Williams would doubtless agree with Thomas Picketty that the price system necessarily leads to wealth and income inequality, and resulting instability. We need look no further than 1929, World War II, 2000, and 2008 to see many total and near-total collapses of our price system economy.

Professor Williams then asks what sort of resource allocation, what sort of economic system we may use to replace the price system. He calls the guiding principle of his answer (rather unattractively) the "Morality of the Machine" (and he does mention Aldous Huxley's *Brave New World* in self-criticism). Professor Williams uses the term "machine" to very broadly describe all science, technology and industrial processes.

While his text is prolix and sometimes difficult to follow, he essentially calls for more of a planned economy in which scientists, engineers, artists, businessmen and other stakeholders employ scientific principles to democratically influence what should be produced and how much. After all, Boulder Dam and the interstate highway system did not result from the price system, but from FDR and Eisenhower technocrats, and produced great value for many for decades.

One of the core principles of the machine (think about improving gas mileage of automobiles) is efficiency and the avoidance of waste. Nature abhors a vacuum. Professor Williams views war, depression, idle factories, unemployed workers and unproductive persons as the greatest wastes. People are key parts of the overall industrial "Machine" which must be properly lubed, oiled and maintained. So it follows that our planners should do whatever it takes to provide full employment and housing for all.

How do we prevent newly-empowered technocrats from abusing their power? Or worse yet, how can we prevent a would-be Adolf Hitler from misusing technological prowess to invade Poland? So another necessary part of an improved economic system would involve freedom of speech and inquiry. Just as the scientific community polices itself through peer review, any attempt (think about Hitler's book burning and expulsion of Jewish intellectuals) to eliminate knowledge and free expression must be instantly defeated.

Persons who object to the capitalist price system (even though they cannot identify any alternative system to support) often cite their distrust of centralized control and economic planning of any kind. They believe in the power and worth of every individual. But they must recognize a key feature of the existing price system: we have already ceded astounding arbitrary control of our economic lives to just a few individuals. Jerome Powell, Mitch McConnell, Elon Musk, Mark Zuckerberg, Jeff Bezos and Bill Gates readily come to mind.

Professor Williams at one point in the essay is bit naïve when he suggests we can look to the machines themselves for guidance on how to use them. He writes sarcastically: "What shall we use the new mechanical cotton pickers for, picking cotton or digging potatoes?"

However, he later dials back these overkill statements by simply saying that rather than relying completely on the price system to determine what gets produced, let's rely more on democratic and debated input from scientists (including social scientists) and engineers. We just might wind up with less on-line pornography and luxury mega-yachts, and more housing and care for the homeless.

Professor Williams does not attempt in this essay to describe how such technocrats might begin to implement the "Morality of the Machine." However, in other chapters of *Non-Newtonian Economics* he does provide suggestions.

c See Morgan Housel, "What happened to the U.S. economy since the end of World War II," 24 November 2021 (**https://dinarrecaps.com/our-blog/what-happened-to-the-us-economy-since-the-end-of-world-war-ii**). Mr. Housel says this about the post-World War II boom in the USA:

> The answer to the question, "What are all these GIs going to do after the war?" was now obvious. They were going to buy stuff, with money earned from their jobs making new stuff, helped by cheap borrowed money to buy even more stuff.

d Addressing economic inequality in the USA has arguably become more urgent than ever before, to the extent that addressing it through redistribution is the most likely means of ending current extreme political polarization. For example, Thomas B. Edsall, "America Has Split, and It's Now in 'Very Dangerous Territory,'" *New York Times*, Januaey 26, 2022, writes:

> Two related studies—"Inequality, Identity and Partisanship: How Redistribution Can Stem the Tide of Mass Polarization" by Alexander J. Stewart, Joshua B. Plotkin and McCarty and "Polarization Under Rising Inequality and Economic Decline" by Stewart, McCarty and Joanna Bryson—argue that aggressive redistribution policies designed to lessen inequality must be initiated before polarization becomes further entrenched. The fear is that polarization now runs so deep in the United States that we can't do the things that would help us be less polarized.

e Professor Williams separately developed and promoted an inventive idea of the "Cosmos," neighborhood gathering spots for coffee, political discussion and art.

In his 1928 essay "Economic Possibilities for our Grandchildren," John Maynard Keynes predicted that by 2028 economic conditions would improve so much in the United States that no one would need to worry about making money. It would be a time of widely shared prosperity. Dr. Keynes wrote:

> For the first time since his creation man will be faced with his real, his permanent problem—how to use his freedom from pressing economic cares how to occupy his leisure, which science and compound interest will have won for him, to live wisely and agreeably and well.

Chapter XX

a Currently practicing economists generally acknowledge the ethics and value judgments implicit in their work. The arguments now center around how economic policy can reduce inequality and unemployment, not whether these tasks should be undertaken.

In arguing against government regulation, Milton Friedman long ago wrote the following, in which even this leading conservative economist displays a values-oriented, human welfare centered economics:

> The United States has continued to progress; its citizens have become better fed, better clothed, better housed, and better transported; class and social distinctions have narrowed; minority groups have become less disadvantaged; popular culture has advanced by leaps and bounds. All this has been the product of the initiative and drive of individuals cooperating through the free market. Government measures have hampered not helped this development. —Milton Friedman, *Capitalism and Freedom* (University of Chicago Press, 1962, page 199).

Mr. Friedman is not cited here because he is in any way *correct* in his theorizing, but simply to show that even he purported to care for the good of the common person.

Elgin Williams: His Life and Work

a *The Animating Pursuits of Speculation: Land Traffic in the Annexation of Texas.* (Columbia University Press, 1949). This book appeared to mixed reviews in scholarly journals, with one sympathetic critic describing it as "a valuable contribution to the understanding not only of Texas, but also of American economic life in the mid-nineteenth century." Other specialists were less sympathetic, one describing the work as "tedious and exasperating." Writing in 1949, University of Texas historian Eugene C. Barker (1874-1956) was scathing in his disparagement: "[This]…is not history. It is dressed in some of the garb of history, however…but even as a restricted study of attitudes there is little addition to factual knowledge that historians can use to advantage." He continues: "The *American Historical Review* could not allow space for an extended discussion of the shortcomings of this book," and then goes on to enumerate these in a lengthy paragraph. One is here reminded of the adage, popularly but mistakenly attributed to Henry Kissinger, to the effect that academic infighting is particularly bitter precisely because the stakes are so small. [RC]

b The writings of Clarence Ayres (1891-1972) are considered among the most important documents of "institutional economics." An intriguing account of one element of his thought is—or rather was at one time—found on the website of The New School (formerly The New School for Social Research):

> Ayres propounded a theory of "institutional lag" whereby technological changes inevitably kept economic technology one step ahead of inherited socio-cultural institutions. …Ayres envisaged…that technological changes were generated by spurts of instinctive inventive activity to innovate in technological processes but that the relatively slow, inherited socio-economic structures would be maladapted to these changes. With glacier-like gradualness, institutions would eventually respond to the new technology, but by the time they adjusted, the next round of inventive activity would have been skipping along further ahead, thus maintaining a permanent lag, and thus incongruity, between social structures and economic technology.

This will certainly resonate with anyone who has subjected the disruptive technologies of the past few decades to even casual scrutiny. Certainly the American polity has been slow to adapt to the ease with which poisonous memes may be disseminated through social media far more swiftly and effectively than the "traditional" channels of propaganda ever permitted. [RC] *c* A quarter of a century later, Elgin's son Robert was, as he recounts, similarly to feel like a "hick from the sticks" when he arrived at Columbia from Texas. [RC]

d Edward Jelks (1922-2021) and Elgin were almost exact contemporaries, born just five days apart. Unlike his roommate, who always regretted being obliged to sit out the war, Jelks served as a hospital corpsman in the U.S. Navy during WW II, including a stint on Guadalcanal. Following the end of the conflict, he returned to UT Austin, receiving successive degrees in English, anthropology and archaelogy. Over the course of a long career he became recognized as one of the foremost figures in the field of "historical archaeology," conducting excavations in a wide range of sites, including Texas, Virginia, New York, Illinois, Wyoming, Newfoundland and Micronesia. Retired in 1983 from Illinois State University, he remained active in the discipline well into the present century, and even to within a few years of his death at the end of 2021. [RC]

e Celebrated documentary filmmaker Robert Gardner (1925-2014), who for years turned his camera on the lives of geographically and culturally remote societies around the world, was Director of the Film Study Center at Harvard University for over four decades. An extensive and informative website is posthumously maintained at **www.robertgardner.net**. [RC]

f His *New York Times* obituary said of Dell Hymes (1927-2009) that "[his] academic net was so wide that a single name for his field is hard to come by: he has been described variously as a sociolinguist, an anthropological linguist and a linguistic anthropologist." Although he and Elgin appear to have become acquainted at Columbia, it's interesting to note that the younger man was an undergraduate at Reed during the brief period in which Professor Williams taught there. [RC]

g That Dorothy Gregg (1919-1997), just six years after co-authoring her article with known "radical" Elgin Williams, left academia for the presumably more remunerative field of corporate public relations—she flacked for U.S. Steel for sixteen years and for Celanese Corporation another eight, ultimately launching her own PR firm—prefigures the pragmatic transition many Baby Boomers made from the strident idealism of their salad days to their comfortable, if not infrequently ethically ambiguous accommodations to the moral exigencies of late-stage capitalism from the Reagan era forward. [RC]

h The eminent American cultural anthropologist A.L. Kroeber (1876-1960) taught for most of his career at the University of California's Berkeley campus, where the anthropology department's headquarters building was named in his honor until the lettering was chiseled off in January 2021 owing to a shift in the winds of academic fashion, his writings being deemed "clearly…in opposition to our university's values of inclusion and our belief in promoting diversity and excellence" (*sic transit gloria mundi*, eh, Alfred?). His daughter was the noted novelist Ursula K. Le Guin. [RC]

i Oscar Lewis (1914-1970) was an American anthropologist who studied and wrote about the "culture of poverty" in the United States and abroad. His 1966 treatise *La Vida; A Puerto Rican Family in the Culture of Poverty—San Juan and New York* received the National Book Award in the "Science, Philosophy and Religion" category the following year. [RC]

j Seymour Fiekowsky (1920-2014) subsequently moved from academia to government, spending much of his civil service career at the Treasury Department Office of Tax Analysis, where he was carried on the books as "Chief of Economics." [RC]

k This is presumably an individual other than the prominent, not to say infamous syndicalist, labor organizer and leader of the International Longshore and Warehouse Union, who is not known ever to have served on a college faculty, although given Reed College's treatment of Elgin, one may confidently assert that the administration there would certainly have fired *that* Harry Bridges had he come up for tenure. [RC]

l Franz Uri Boas (1858-1942) has been called the "father of American anthropology," and the approach to the field that he pioneered, uniting the formerly distinct disciplines of cultural anthropology, linguistic anthropology, physical anthropology, and archeology, has come to be known as "Boasian" anthropology. Among his students and acolytes are counted Alfred Kroeber, Ruth Benedict, Margaret Mead, Ashley Montagu and Zora Neale Hurston. Claude Lévi-Straus acknowledged a debt to Boas and his work, and was with the older man when the latter died. [RC]

m The reference is, of course, to *Finnegans Wake*, which it would be just like Elgin to have actually *read*. [RC]

n Ingram Rollers: still a thing. Although the concern has passed out of the family's hands, the signature product is still being manufactured and sold. From the present-day company website:

> Ingram Rollers was founded in San Antonio, Texas in 1909 and was closely associated with Acme Iron Works Company, another Ingram family company. Ingram Rollers is the oldest operating asphalt compaction equipment manufacturer in the United States. Its legacy is rooted in being an innovator in the asphalt roller industry. The reliability of Ingram rollers have been the key to many decades of success. Hydraulic-controlled power steering, an industry standard today, was first offered by Ingram Rollers.

There are at least a couple of concerns today doing business as "Acme Iron Works," neither having any connection with the Ingram family, nor indeed with the celebrated mail-order vendor of Acme Rocket-Powered Roller Skates, Acme Giant Rubber Band, Acme Jet-Propelled Pogo Stick, Acme Spring Boots and many other fine products. [RC]

o Author, historian, folklorist, anthologist, professor, columnist and all-around gadfly James Frank Dobie (1888-1964) would certainly have been a colorful subject for the aspiring documentarian. Throughout his long career, his thought and works seldom strayed far from his native Texas and the southwest. He never tired of goading the state's political establishment ("When I get ready to explain homemade fascism in America, I can take my example from the state capitol of Texas," he once wrote, which for some reason failed to endear him to the elected officials there). As an ardent custodian of the state's heritage and traditions, Dobie was credited with a prominent role in the ultimately successful efforts, beginning in the Twenties, to save the then-imperiled Texas Longhorn breed from extinction. His political activism and progressive views put him crosswise at one point with Governor Coke Stevenson, who engineered Dobie's dismissal from the University of Texas faculty in 1947. Years later, near the end of Dobie's life, President Lyndon Johnson (between whom and Stevenson there was bad blood of very long standing) awarded him the "Medal of Freedom." [RC]

p Approximately $16.00 in 2022 dollars. We are left free to imagine what this could have fetched today as an NFT. [RC]

Colophon/Production Notes

Rand Careaga

When my longtime friend Robert I. Williams, Elgin's son, first showed me the manuscript of *Non-Newtonian Economics* last year, I lightheartedly suggested that given today's "self-publishing" technologies, it would certainly be feasible to shepherd this long-forgotten tome—retrieved from the archives of the author's first-born—into print. One thing led to another, and by autumn the conversion was underway.

The work then consisted of approximately three hundred pages of typescript committed to "onionskin" paper—the reference may elude some of our younger readers—by means of what appeared to have been an uncommonly ill-maintained 1929 Underwood typewriter. It is a shame that in 1948 an adjunct professor at the University of Washington was so ill-compensated that after carousing through the fleshpots and gin joints of Seattle's U District he hadn't the means to purchase a fresh goddamn typewriter ribbon—so I thought during the weeks I struggled to prepare his pages for conversion to machine-readable form.

I will here pay tribute to the hardware and software I've employed to translate those typed pages into the volume the reader holds in his, her, or their (we are *au courant* in points of wokeness here at ETPP!) hands. The heavy processing has been undertaken entirely on an old Mac Pro, a big "cheesegrater" tower manufactured in 2010 and still providing yeoman service. The pages were digitized, one by one, on an Epson "Perfection V37" flatbed scanner. Epson has abandoned support of this model, but Hamrick Software's "VueScan" application has ably filled that gap. It was necessary to goose the scanner output, page by page, in points of contrast, and to this end, of course, I employed Photoshop, from Adobe Systems.

Once the scanned pages were ready for prime time, I fed these in batches to the "FineReader," OCR (optical character reading) application from ABBYY software, which did an extraordinarily good job under the circumstances, given the suboptimal condition of the manuscript and the numerous handwritten emendations with which it was disfigured.

The OCR output passed at various stages through a few word processing applications, including Apple's TextEdit and Pages, and Microsoft's Word. The files were then fed into Adobe's InDesign page layout software, in which environment, following some months of consultation, massage, collaborative revision and not a few spirited disagreements with my co-editor, the product was ultimately rendered to PDF for digital output. The main text has been set in Adobe Garamond and the chapter headings in Syntax Bold. Gill Sans Nova was employed for parts of the front matter and for the humorous accounting of the Williams family finances excerpted in the biographical note. Since we are a few decades removed now from the distant whiff of disrepute associated with traditional "vanity" publishing, the online printing service "BookPatch" (**www.thebookpatch.com**) was engaged to produce this volume, and has done so very satisfactorily indeed.

On a personal note, I never knew Elgin Williams: he'd been dead and buried for over forty years by the time I was first introduced to his son late in 1996. But as I processed *Non-Newtonian Economics*, necessarily reading and re-reading it several times in the course of putting this volume together, I came to feel a kinship with its quirky, mercurial, doomed author. I wish I'd known the man. I wish his children had known him in the Sixties, during which turbulent decade I feel certain that he'd have been one of that era's rare "hip" parents. I wish finally that we could have had the benefit of his undoubtedly trenchant observations on the Alzheimer Administration (1981-1989) and on the Cheney Shogunate (2001-2009), upon each of which, under happier circumstances, he might reasonably have been expected to live long enough to cast a jaundiced eye.

That wasn't in the cards, but I'm gratified to have helped usher his work into the present era on the centennial of the author's birth. Here's to you, Elgin, in whatever sociopolitical/economic/anthropological Valhalla you might have fetched up—let it be, after all your travails, a heartily congenial one, with economic justice prevailing in that celestial mead hall—and may your memory be a blessing in this (thus far ghastly) twenty-first century.

Editors/Contributors

Robert Williams is the son of Elgin Williams and like his father obtained a degree from Columbia University. Professionally, he has practiced international contract and construction law for many years. He has also published various articles on environmental economics. He currently resides in Oakland, California.

Brett Williams is the eldest daughter of Elgin Williams. Mirroring his interest in anthropology, she took her PhD in that subject from University of Illinois Urbana-Champaign. She then became full Professor of Anthropology at American University, where she taught for many years. She has published various books including *Debt for Sale*. A long-time social activist, Professor Williams was most recently involved in the campaign to save the historic McMillan Sand Filtration Site in Washington, DC, where she resides.

Rand Careaga passed most of his alleged career within a small in-house art department in San Francisco. He enjoyed fifteen minutes of internet fame a few election cycles ago with the "Diebold Variations," and is lately celebrated as the author/designer of *Cinema Paronomasia*, which has sold almost three copies since its publication in 2021.