Henry George and Comparable Worth: Hypothetical Markets as a Stimulus for Reforming the Labor Market

Author(s): M. Neil Browne and Brian Powers
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Henry George and Comparable Worth:

Hypothetical Markets as a Stimulus for Reforming the Labor Market

By M. NEIL BROWNE *and* BRIAN POWERS*

ABSTRACT. Despite significant improvements in the *status* of *women,* a significant gap between the *wages* of males and females persists. *Women's work* is not paid according to its *comparable worth. Henry George,* the 19th century economist and social philosopher, advocated payment according to contribution to *production* in a freely competitive *labor market.* The present is an *exploitative* one distorted by employers' *market power,* offering no free choice among alternative *occupations.* When women can prove, as they do, that *sex discrimination* has played some part in their historically lower compensation rate, the market is shown to be not fair and efficient. Hence non-market decision-making is demanded through vigorous and unrelenting prosecution enforcing the equal pay statute of 1964.

I

A LARGE AND PERSISTENT GAP between the average wages of men and women provides the factual stimulus for debate concerning the equal opportunity issue of the 80s—comparable worth. A typical female employee must work for nine hours to make what the typical male employee receives in five hours.[1] Despite highly visible improvements in the status of women in upper echelon jobs, the wage gap between males and females has been impervious to statutory and cultural evolution.

The hopes and energies of those who deplore this earnings gap now focus on the doctrine of comparable worth.[2] This concept provides that intrafirm wages should reflect the value of each job's contribution to the firm. Advocates of comparable worth allege that job evaluation systems, despite their potential biases, can avoid the job segregation and cultural norms reflected in existing market wages. The initial step in selling comparable worth to a skeptical public is challenging the relative salary payments for various jobs in a specific industrial setting. If that challenge is effective, comparable worth advocates seek statutes,

* [M. Neil Browne, Ph.D., is professor of economics in the College of Business Administration, Bowling Green State University, Bowling Green, OH 43403-0268; Brian Powers is a candidate for the J. D. degree at Harvard University Law School.] Much of the research was conducted with the aid of the Henry George Collection of the New York Public Library, Reference Division.

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laws and favorable judicial decisions based on Title VII of the Civil Rights Act of 1964.

The abundant number of vociferous critics of comparable worth respond to comparable worth with a rousing defense of existing labor markets.[3] Frequently, their defense is based more on chimerical markets than on the complex market structures that actually determine wage patterns.[4] Critics of comparable worth often prefer to attack the many potential problems of comparable worth proposals than to discuss market flaws that undercut their frequent reflexive defense of existing markets. The market defense to comparable worth stems from the use of hypothetically perfect markets as a surrogate for actual markets.[5] The economic results derived from these hypothetical markets are comparatively attractive when contrasted with actual labor markets where comparable worth has been implemented.

Comparable worth advocates have permitted their arguments to be categorized as "anti-market." Consequently, their position is characterized as being inconsistent with the individualistic ethos that typifies so much of the American character.[6] The thought of Henry George provides a perspective that permits a reconciliation between respect for market forces and reform. By noting the tension in George's work between (1) reverence for economic freedom and (2) moral outrage at existing institutions, this paper aspires toward recasting comparable worth arguments in a more attractive form.

II

HENRY GEORGE ONCE REMARKED that every reform has to pass through three distinct stages-

1. It is grossly immoral and too ridiculous to talk about, and will undermine society, if put into effect.
2. There certainly is something in it, but it is impracticable and cannot be carried out.
3. We always knew it was the correct thing and the wonder is it was not done years ago.[7]

The doctrine of comparable worth is now wavering between stages one and two. The theory has failed to gain the popular support once predicted and has met with only limited success in the legal arena.[8] In the minds of many, comparable worth is still relegated to the first of George's three stages of reform. The theory is derided as being not only impractical, but utterly undesirable and potentially detrimental to society.

Those who vigorously oppose the concept of comparable worth typically argue from a neoclassical market standpoint.[9] They claim that impersonal market mechanisms best determine the relative worth of workers and that any deliberate interference with the market is unnecessary and unfair. Those who explicitly profess this market defense usually fail to enumerate the limited conditions under which markets will freely operate. If these conditions are not met, then the market defense is invalid. Hence, if incomes are not determined in an environment closely approximating the assumed conditions, non-market solutions such as comparable worth are more worthy of consideration.[10]

Although his work preceded the evolution of comparable worth, Henry George did understand the inherent weaknesses of the market defense. This defense is the foundation for resistance to legislative or judicial efforts to improve society. His landmark book, *Progress and Poverty,* published in 1879,[11] is in part an eloquent attack on what later turned out to be some basic neoclassical market assumptions. George was a self-professed "free-trader,"[12] one who advocated a governmental policy of pure laissez-faire in the area of international trade, especially with respect to protective tariffs. He understood quite well how beneficial markets could be under the right conditions. And yet, he recognized the need for government intervention in the domestic economy. In fact, George's most famous works were the result of his personal crusade on behalf of the single-tax theory, a land-based taxation policy based on socialistic (in the pre-Marxian sense) principles.[13]

George's ambivalence about the desirability of market decision making is widely shared. If he were alive today, George would not dismiss comparable worth claims solely because they are a form of non-market decision making. Rather, it is more logical to assume that he would examine the structure of existing markets to determine whether they are operating in an environment closely resembling free market conditions. If not, then he would doubtlessly consider reforms such as comparable worth. Through the use of such reforms existing markets can be made to approximate more closely the idealized markets that are assumed by market adherents.

This paper illustrates how the colorful market critique of Henry George may be applied to the contemporary comparable worth debate. Since comparable worth is a non-market form of decision making, advocates of the concept must convince those in power that the labor market presently relied upon to determine wages does not closely resemble the assumed market model. As George noted, "It is not government that makes society, but society that makes government."[14] Hence, those who seek to initiate radical social and economic reforms should first attempt to capture popular, "grassroots" support among members of society. George's picturesque style of writing lends itself well to this purpose. Making extensive use of George quotations, this paper argues that the existence of market power and lack of free choice in the labor market, combined with the questionable validity of the individualistic model, and the undesirability of the present wealth distribution, expose certain significant inadequacies of the current market defense against comparable worth claims.

III

ONE OF GEORGE'S PRIMARY BELIEFS is that every human being has a basic right to the fruits of her own labor. In the natural state, all humans are born with only one possession: their bodies. When an individual uses his or her body in productive effort, or labor, he or she then has a natural right to the product of that labor. George lived in post-Civil War America, a society in which slavery was still a prominent topic of discussion. For him, the real evil of slavery is that the slave is denied access to the full benefit of his or her labor. George took this reasoning one step further and concluded that any person who labored should receive the result of that labor in the form of a fair wage.[15] In his own words, "The essence of slavery is in empowering one man to obtain the labor of another without recompense. Even the slaveowner must leave to the slave enough of his earnings to let him live. Are there not in so-called free countries great bodies of workingmen who get no more?"[16]

If a worker is not being paid the full value of his or her labor, and has no choice but to take the offered wage (or else starve), then the market is not functioning properly. George and his contemporaries referred to this market failure as "wage slavery."[17] He bluntly pointed out the reality of wage slavery by noting that, ironically, "Is not the world over, the 'working class' synonymous with 'the poor class'?"[18]

George, then, believes that if labor markets truly operate in a free and efficient manner, all workers will receive a full reward, equal to the worth of their output.[19] Comparable worth advocates are, like George, not criticizing the fairness of potential market outcomes. But if other factors, such as sex discrimination, tend to lower the wages of an individual below his or her rightful earnings, then he or she has in essence been enslaved by the employer. Hence, when women can prove that sex discrimination has played some part in their historically low rate of compensation,[20] the market may no longer be defended as fair and efficient. Women may then be entitled to a non-market mechanism that will free them from wage slavery.

Market decision making fails to guard against wage slavery because of two related flaws in the market model. The neoclassical economic paradigm assumes both a lack of market power and the existence of free choice on the part of actors in the marketplace. If these basic assumptions do not hold true, the entire market defense is suspect.

If product markets are to be non-coercive and fair allocative mechanisms, sellers must be powerless to demand a price that exceeds the minimum value of what they sell. Since relative prices represent the comparative value of resources, a seller who can violate this criterion causes the market to distort the real value of the resource, thereby disrupting allocative efficiency. A buyer of labor services or products does not maximize individual welfare through market exchanges in those markets where prices and wages reflect power.

Robert Dahl has cogently pointed out the "optical illusion" required to hypothesize the giant firm as a private enterprise.[21] Reducing the complex modern firm to the single, independent, and rational entrepreneur requires an act of artful imagination. Those employers who possess market power guide wage decisions rather than respond passively to impersonal supply and demand conditions.[22]

The market defense to comparable worth arguments usually reflects a tone of dismay that existing market wage differentials are even questioned.[23] This dismay originates from the neoclassical labor market theory which assumes employers and employees make wage decisions in a power vacuum.[24] In this form of market, buyers and sellers of labor are assumed powerless to get wages that violate the correlation between productivity and income. If an employer were to pay any employee less than her worth, higher wages elsewhere would lure the employee away. As long as labor markets are competitive, the employer has no choice but to pay employees what the market says they are worth.

George clearly recognized the necessity of competitive markets for the acceptance of market outcomes. For example, to illustrate the debilitating effects of an inordinate amount of market power on the part of one economic actor, he created the following literary allegory:

> (Robinson Crusoe took Friday as his slave. But what if, instead, he had . . .)
>
> ". . . welcomed him as a man and a brother, read him a Declaration of Independence, and a Fifteenth Amendment and informed him that he was a free and independent citizen, entitled to vote and hold office; but had at the same time informed him that that particular island was his (Robinson Crusoe's) private and exclusive property. What would have been the difference?"[25]

Likewise, if we enact an Equal Pay Act, a Civil Rights Act, or even an Equal Rights Amendment, but at the same time afford males preferred access to positions of high authority and high wages, women are in reality disadvantaged. The power wielded by White male decision makers, acting in their own best interests in the market place, ensures that women will remain on the lower end of the economic scales, regardless of their legislated equality.

George recognized that market power will exist as long as there is not "as great a competition on the part of employers' wages."[26] In the case of working women, the competition is especially unilateral because the unemployment rate for women is higher than it is for men. Women are facing a "buyer's market," in which they are forced to compete for scarce jobs, while employers do not have to vie as vigorously for abundant female labor.

As a result, only the sellers of labor are involved in real competition. Buyers of labor are not subject to the same "laws" of supply and demand, and total market balance is disturbed. George illustrated the undesirability of this situation in the following manner:

> The air we breathe exerts upon every square inch of our bodies a pressure of fifteen pounds. Were this pressure exerted on only one side it would pin us to the ground and crush us to a jelly. But being exerted on all sides as we move under it in perfect freedom. . . .
>
> Where there exists a class denied all right to the element necessary to life . . . competition is one sided, and as population increases, must press the lowest class into virtual slavery. . . .[27]

IV

ANOTHER FLAW in the market defense, related to the assumed lack of market power, is the equally false assumption that all market transactions are voluntary. "Voluntary" in this sense means that prospective workers enter the labor market free to accept or reject any job offered by any employer at any wage. But workers are not always free to reject unsatisfactory offers for reasons of survival. An unemployed person is in some perverted sense "free" to reject low paying offers, but as George said, "only as free as if thirsting in a desert he found the only spring for miles walled and guarded by armed men who told him he could not drink unless he freely contracted with them on their terms."[28] In this instance, the decision is similar to that of a victim held at gunpoint and offered the classic choice between "your money or your life." The consequences of the available alternatives are such that one "choice" is in effect forced upon the powerless victim.

While "lack of market power" and "existence of free choice" are assumptions which market defenders necessarily make, there are other basic beliefs underlying the neoclassical argument. One of these is an almost unqualified faith in the individualistic model of human behavior. According to this paradigm, each individual human begins life with equal chance of success or failure. Only through hard work and determination will the individual succeed. In effect, the individualistic model proposes that humans choose to succeed by choosing to be educated, wise, thrifty and industrious. Conversely, these same humans may opt for economic failure by choosing instead to be illiterate, foolish, imprudent, and lazy. Hence, humans freely choose success or failure and therefore deserve their economic lot, whatever it may be.[29] But if aleatory factors, such as race, age, or sex, have some effect upon the individual's economic worth, then the model of rugged individualism loses credibility. Those who argue against comparable worth from a market perspective embrace the individualistic model while denying the existence of pay discrimination.

Some of his contemporaries felt that George's most significant contribution to economics was his eloquent attack on the individualistic model.[30] George felt that one of the greatest barriers to any non-market economic reform is that many people "falsely assume that those who now possess the larger share of wealth made it."[31] George knew that most wealth is not individually earned, but is the result of unchosen circumstances. He knew not all individuals have an equal chance of "choosing" success, as illustrated in the following allegory:

> "Why do they cry for bread?" asked the innocent French princess, as the roar of the fierce, hungry mob resounded through the courtyard of Versailles. "If they have no bread, why don't they eat cake?"
>
> Yet, not a fool above other fools was the pretty princess, who never in her whole life knew that cake was not to be had for the asking. "Why are not the poor thrifty and virtuous and wise and temperate?" one hears whenever in luxurious parlors such subjects are mentioned. What is this but the question of the French princess?[32]

V

ANOTHER FUNDAMENTAL SUPPOSITION made by those who attack comparable worth is the belief that the distribution of income and wealth that provides a financial foundation for the economic activity of each generation is legitimate and fair. Specific wage bargains are derived, at least in part, from the power, opportunities, and freedom that the starting point distribution dispenses.[33] Embracing the starting point distribution is central to any attack on comparable worth or its nonmarket alternatives because the demand curves for the buyer of labor's product reflect a particular income distribution: the existing one.[34]

A demand curve for any good or service expresses the amount of money consumers are willing and able to spend on that good and service. Every consumer has an abundance of wants. Only a subset of those wants, however, are reflected on demand curves. The amount of income one possesses, *inter alia,* determines the size of the disparity between wants and demand. Thus, the legitimacy of any set of product demand curves and their consequent demand curves for labor depends on our satisfaction with the distribution of income and wealth that establishes their intensity.[35] Any proposed change in the distributional pattern, such as that projected by comparable worth advocates, thereby threatens the existing pattern of dollar votes.

Henry George provides numerous criticisms of the existing distribution of dollar votes. According to George, "Beneath all social problems lies the political problem of distribution of wealth."[36] The market defense relies on the belief that existing income and wealth distributions are proper starting points when determining workers wages.[37] Hence, in his rejection of unequal wealth distribution, George was rejecting present market-determined wages. While he supported the concept of wage determination through free markets, he could not accept the wage bargains that emerged from existing market exchanges.

George believed that "democratic government in more than name can exist only when wealth is distributed with something like equality,"[38] and that "the thing responsible for the unjust and unequal division of wealth everywhere is simply the denial of equal rights."[39] In order to solve the problem of unequal wealth distribution and, in so doing, redetermine the resultant market wages, equal rights and privileges must be granted to all laborers. These rights must include equal access to economic and political power, for "equality before the law amounts to but little unless there is also equality of opportunity."[40]

According to George, "All we must do to secure a just distribution of wealth is . . . to secure to each the freedom to use his own powers . . . to secure to each the full enjoyment of his own earnings."[41] Comparable worth is a method by which all workers may be assured of securing their just earnings. Those who relegate comparable worth to the first of George's aforementioned stages of reform criticize the concept as being too politically disruptive to enact.[42] But George believed that only by radical solutions will systematic inequities be corrected.[43] Comparable worth, though it may be radical, is based on a fairly simple ideal: that laborers are entitled to the result of their labor. If the current market fails to distribute fair earnings to any group of workers, then the existing market should not be the sole determiner of wages. The most direct solution (and for George "direct" solution may be equated with "desirable" solution[44]) is a system by which workers, employers, and skilled job evaluation experts determine the relative worth of any job and simply pay the worker accordingly.

Using the rhetorical force of Henry George's arguments, those who advocate the doctrine of equal pay for jobs of comparable worth may attract new attention to their cause. By (1) proving that the labor market fails to function as neoclassical economists assume, (2) exposing the fallacies of the individualistic model embraced by market defenders, and (3) illustrating the undesirability of the present wealth distribution, comparable worth advocates will strengthen their case in favor of non-market decision making. Unless such an approach is taken, the majority of Americans will never move toward acceptance of comparable worth reform. By overcoming inadequacies of current labor markets, we will be moving closer to the attainment of the three rights George considered unalienable: "the right to life; the right to work; and the right to hold securely the results of that work."[45]

George recognized what advocates of comparable worth have heretofore ignored. Reformism and laissez-faire liberalism are reconcilable.[46] The existing market does not necessarily possess the efficiency and equity advantages that activate defenses of market activity.[47] The hypothetical market of neoclassical economics can provide extensive societal benefits. The vision of market potential can provide inspiration for needed reforms.

Those who wish to use State action to attain more complete market information, reduced market power, and a more equitable income distribution can appropriately tie their suggestions to the aura of liberty that the hypothetical free market invokes. While George was an outspoken opponent of restrictions on personal freedom,[48] he recognized that government can provide liberty in situations where masses of individuals are unable to achieve their objectives through individual action.[49] Paradoxically, State intervention in wage decisions can ultimately strengthen market forces.[50]

Notes

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3. David Gregory, "Comparable Worth: The Demise of the Disparate Impact Theory of Liability," *Detroit College of Law Review,* Vol. 1982 (1982), pp. 853–898.

4. Peter Perl, "Comparable Worth: 'Looney Tunes' or Simple Justice?" *Washington Post National Weekly Edition.* (December 3, 1984), p. 33.

5. E. Robert Livernash, ed., *Comparable Worth: Issues and Alternatives* (Washington, D.C.: Equal Employment Advisory Council, 1980).

6. Herbert McClosky and John Zaller, *The American Ethos* (Cambridge, MA: Harvard Univ. Press, 1984).

7. Letter to the editor of *The Daily Telegraph* (undated) from Mr. W. E. Johnson. *Henry George Scrapbooks,* Vol. 9, p. 39. New York Public Library, Henry George Collection (hereafter HGC).

8. "County of Washington v. Gunther: Wage Discrimination Suits Under Title VII," *Ohio Northern University Law Review,* Vol. 8, (1983), p. 543–56; "The expansion of Title VII Protections Against Sex-Based Wage Discrimination: County of Washington v. Gunther," *University of Toledo Law Review,* Vol. 13, (1983), p. 189–213. Both articles document the historical failure of comparable worth suits under Title VII of the Civil Rights Act of 1964.

9. See *Christensen v. Iowa,* 563 F. 2d 353, 356 (8th Cir. 1977); *Lemmons v. City and County of Denver,* 620 F. 2d 228, 229 (10 Cir. 1980), cert. denied, 101 S. Ct. 244 (1980). In each of these cases, the courts accepted to some degree a neoclassical market defense against a comparable worth suit.

10. M. Neil Browne, "The Fundamental Tension Between Market Wages for Women and Comparable Worth," *Law and Inequality,* Vol. 2 (August, 1984) pp. 473–91.

11. Henry George, *Progress and Poverty, An Inquiry into the Causes of Industrial Depressions and of Increase of Want with Increase of Wealth; The Remedy,* (New York: Robert Schalkenbach Foundation, 1979).

12. Henry George, *Protection or Free Trade,* (New York: Robert Schalkenbach Foundation, 1980).

13. Henry George, "Address made at City Hall, Glasgow, August 20, 1890," *The Henry George Papers,* Box No. 13 (writings), New York Public Library, manuscript division.

14. Henry George, *Protection or Free Trade,* p. 327.

15. "Henry George, His Farewell to Australia," (newspaper article, undated, origin unknown) *Henry George Scrapbooks,* vol. 1, p. 99 HGC.

16. Henry George, *The Condition of Labor: An Open Letter to Pope Leo XIII,* Charles Webster and Company, New York, 1893, p. 29.

17. George Raymond Geiger, *The Philosophy of Henry George,* (Westport, CT: Hyperion Press, 1933), p. 275.

18. "Henry George's Last Lecture," (article), *John Swinton's Paper,* May 18, 1884. *Henry George Scrapbooks,* Vol. 6, p. 6, HGC.

19. Geiger, *op. cit.,* p. 280.

20. See Thelma Kandel, *What Women Earn* (New York: The Linden Press/Simon and Schuster, 1981) for a complete discussion on the historical gap between female and male wages.

21. Robert Dahl, *Democracy in the United States* (Chicago: Rand McNally, 1972).

22. Barbara Deckard and Howard Sherman, "Monopoly Power and Sex Discrimination," *Politics and Society,* Vol. 4 (1974), pp. 475–80.

23. John Bunzel, "To Each According to Her Worth?" *Public Interest,* Vol. 1982 (1982), pp. 77–81.

24. John Kenneth Galbraith, "Power and the Useful Economist," *American Economic Review,* Vol. 63 (May, 1973), pp. 1–6.

25. Henry George, *Social Problems* (New York: Charles L. Webster and Company, 1893), pp. 204–05.

26. Henry George, "Speech Before the International Typographical Union," *The Henry George Papers,* Box No. 13 (writings), New York Public Library, manuscript division.

27. Henry George, *Protection or Free Trade?,* p. 328.

28. Henry George, *Social Problems,* p. 139–40.

29. Duncan Foley, "Problems vs. Conflicts: Economic Theory and Ideology," *American Economic Review,* Vol. 65 (May 1975), pp. 231–32.

30. [You have] "disproven the stupid assertion that Wealth is but the reward of industry, intelligence and thrift; and Poverty but the punishment of indolence, ignorance and imprudence.

"The great merit of your investigations is, that they made clear to the simplest mind, that society, as it is presently organized, must be remodeled." A letter from the "Spread the Light Club" to Henry George, *The Henry George Papers,* Box no. 2 (letters), The New York Public Library, manuscript division.

31. Henry George, *Social Problems,* p. 119.

32. Henry George, *Social Problems,* p. 91.

33. Louis Kaplow, "The Accuracy of Traditional Market Power Analysis and a direct Adjustment Alternative," *Harvard Law Review,* Vol. 95 (1982) pp. 1817–23.

34. Paul Wachtel, *The Poverty of Affluence* (New York: Macmillan, 1983), pp. 269–71.

35. Lester Thurow, "The Illusion of Economic Necessity," in Robert Solo and Charles Anderson, eds., *Value Judgment and Income Distribution* (New York: Preager, 1981), pp. 250–53.
36. Henry George, *Social Problems,* p. 30.
37. M. Neil Browne and John Hoag, *Understanding Economic Analysis,* (Boston: Allyn and Bacon, 1983), Chapter 10.
38. Henry George, *Social Problems,* p. 29.
39. Henry George, "Lecture at the Midland Institute; Birmingham England: January 23, 1884," *The Henry George Papers,* Box No. 13 (writings), New York Public Library, manuscript division.
40. Henry George, "Speech Before the International Typographical Union."
41. Henry George, *Social Problems,* p. 120.
42. Helen Remick, ed., *Comparable Worth and Wage Discrimination,* (Philadelphia: Temple Univ. Press, 1984), pp. 24–25.
43. "Whoever considers the political and social problems that confront us must see that they center in the distribution of wealth, and he must also see that, though their solution may be simple, it must be radical." Henry George, *Social Problems,* p. 116.
44. "For every social wrong there must be a remedy. But the remedy can be nothing less than the abolition of the wrong." Henry George, *Social Problems,* p. 116.
45. Henry George, "Speech in the House of Representatives, March 9, 1893," *The Henry George Papers,* Box No. 13 (writings), The New York Public Library, manuscript division.
46. Frank Petrella, "Henry George's Theory of State's Agenda," *American Journal of Economics and Sociology,* Vol. 43, (July, 1984), pp. 269–86.
47. Will Lissner, "Cant From a Nobel Prize Laureate," *American Journal of Economics and Sociology,* Vol. 42 (April, 1983), p. 152.
48. Henry George, *A Perplexed Philosopher* (New York: Robert Schalkenbach Foundation, 1965), pp. 70–71.
49. Henry George, *Social Problems,* p. 242.
50. Fe. Ray Marshall, Statement in *Comparable Worth Issues For The 80's: A Consultation of the U.S. Commission on Civil Rights,* (Washington, D.C.: GPO, June 6–7, 1984) pp. 50–53.

The Dean of Institutionalists on His School

THE INTERPRETATIONS AND SOLUTIONS generated by orthodox economics, with its emphasis on efficiency and impersonal market forces, have failed to satisfy many economists. An alternative framework has been developed in the past eight decades by institutional economists, who view the economic system not as a competitive equilibrium to be kept in balance but as the ongoing economic process through which the material needs of its human participants are to be met.

Although institutional economics represents a major and growing body of work, it has not always been clear how it differs from other approaches. In his new book,[1] Allan Gruchy, considered the dean of institutional economics, ad-