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THE BACKGROUND OF ECONOMIC THEORIES¹

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It is a weakness of economics that the social ideas upon which its theories rest have been neglected. Economic theories have been put forward as though they depended solely upon physical or objective conditions. This view obscures the relation between economic theory and the epochs in which it originated; it makes what really is of class origin appear as though it were a necessary element of human nature. To understand its development the history of economic thought must be divided into three epochs, which may be designated as the epoch of 1776, that of 1848, and that of 1912. The social thought of the first epoch brought out the elements in human nature and in objective conditions that contributed to the harmony of interest. The early economists thus emphasized general laws, and were optimistic in tone. This epoch ends in 1848 with the revolution by which it became well known.

To understand the new group of writers which now appears, the political and social development of the time must be reviewed. The group to which Adam Smith belonged had influenced public opinion in England and on the Continent; by it a radical, or at least a liberal, viewpoint had been created. As a result, however, of the Napoleonic wars, a definite reaction began in all Europe which has its basis in the thought that social progress had been too rapid, and that either a reaction was necessary or at least a considerable halt should be made before new progress was undertaken. This made the thought of 1848 either revolutionary or reactionary. One group of thinkers contended that progress had been too slow and hence should be accelerated by a revolution, while the other group regarded the forward movement as too rapid and hence thought that in some way it should be checked. A representative of this English reaction is Carlisle. In Germany the movement associated

¹ From Proceedings of the American Sociological Society.

with Bismarck had the same ideal and end. The best representative of the revolutionary movement is Karl Marx, since from his writings the revolutionary socialism of recent years has taken its origin.

It is not my purpose to discuss in full the views of either group of thinkers. The contrast, however, is definite and has constituted the basis for discussion during the last sixty years. The most influential representative of this epoch is John Stuart Mill, whose position therefore needs attention. Mill was as revolutionary in his ideas as was Karl Marx, and one of his essays of this epoch is a *Defense of the Revolution of 1848*. Mill, however, was not consistent in his position. When he wrote his *Political Economy* he was reactionary in production and revolutionary in distribution. To make this clear, the attitude of Adam Smith must be contrasted with that of Mill. Smith regarded production as varying with quantities of labor, and thought that improvements in production were connected with the improvements in the condition of the laboring class. Mill's emphasis in production is not on labor but on capital. Hence he views the progress of society, not in connection with the changes in the laboring class, but rather with the accumulation of wealth. From standards of labor to standards of capital there is an evident reaction, because capital appeals to many fewer motives than do the incentives to labor. It is also a class appeal. Relatively few are aroused by the motives for saving; the great mass of people contribute to production only through their labor.

It is equally clear that Mill expected a revolution to take place in the distribution of wealth. At the present time, most economists neglect the first ten chapters of Mill's *Theory of Distribution* and spend their time analyzing the next five. There is, however, a reason why Mill discussed the distribution of property and emphasized it more than he did the distribution of income. Whenever he speaks of the distribution of property, he always speaks of it with some limitation, as "under the present time conditions," or "for the time being." He anticipated that at no distant date radical legislation would alter materially the property distribution then prevailing in England. The theory of the distribution of income stated in his later chapters is presented not with the thought that

these laws would elevate the laboring population to a higher position, but rather with the view to showing that this transformation is so difficult that it is not likely to take place. His position, therefore, is as radical as that of Marx; Marx, however, relies more on the revolutionary methods as applied to the distribution of income, while Mill would effect the same end by a distribution of property. In either case, a radical reconstruction of society would take place. Both Mill and Marx were plainly of the opinion that this transformation was inevitable and desirable. The compromise which Mill effected between reactionary production and revolutionary distribution was accepted by the economists of the next generation, not as a compromise, but rather as a solution. Only after long, serious study did the inherent opposition in Mill's position become apparent. It was then recognized that between Mill's theories of production and distribution an irreconcilable gulf intervened.

In the epoch following the publication of Mill's *Political Economy* the economists were divided into two groups: one attempted to make economic theory consistent by making distribution reactionary; the other group attempted to acquire consistency by creating a revolutionary theory of production. Of the latter attempts, the work of Karl Marx is prominent. His book on *Capital* is an endeavor to give a revolutionary basis to theories of production. I shall not describe his efforts in this connection, but it is plain that they have failed. No revolutionary theory of production has been worked out in a way that would gain for it general recognition. The law of increasing misery, the iron law of wages, and similar doctrines have been either abandoned or discredited. The movement, therefore, to gain consistency in economic theory through revolutionary concepts in production must be regarded as a failure. In a like way, although it is not so generally recognized, the endeavors to create a reactionary theory of distribution have also failed. Writers with reactionary tendencies have not experienced many difficulties in restating production, but in the attempt to put the theory of distribution on a plane similar to that occupied by the theory of production the shortcomings of their theories are apparent. So many writers have attempted the task of creating a consistent

economic theory that it can now be regarded as something impossible to do. If consistency and harmony are to be attained, economists must find some new way of handling economic problems.

This brings us into the present epoch; 1912, at least for America, seems clearly the year in which the break from the old to the new has become apparent. The essential thing in the new epoch is the increased power of evolutionary ideas. Today, instead of having a sharp contrast between reaction and revolution, a third alternative is possible—progress through evolution. I shall therefore put the three groups in conscious contrast, so that the elements upon which each depends may be made clear. In order to do this, I shall give a table in which the elements for reactionary, revolutionary, and evolutionary reasoning are contrasted.

Reactionary	Revolutionary	Evolutionary
Retrospective	Large	Incremental
Hypothetical	Sudden	Persistent
Dogmatic	Militant	Voluntary
Undemocratic	Heroic	Material
Class-conscious	Epoch-making	Planless

Reactionary thought begins with a retrospective, or perhaps it is better to say a historical, attitude, since there is an emphasis on old conditions and old ideas, rather than on those of the present. With this basis, the reasoning becomes hypothetical, and as the class feeling that results develops, reactionary thought becomes dogmatic. It also changes into undemocratic forms, which end in the emphasis of the superiority of the capitalistic class over those who are engaged in manual labor. The reactionary thinker is also class-conscious, because he views the world from the standpoint of his particular group rather than the nation as a whole. In contrast with this, revolutionary thinkers expect large results to come suddenly by transformations that are epoch-making in their consequences. There is also a decided emphasis on militant action ending in or at least transforming itself into heroic action. All revolutionary thinkers look to some hero to make the transformations they hope for rather than to the small steady changes that lead to regular progress. A much-quoted statement from Mill represents this

view: "When the object is to raise the permanent condition of a people, small means do not merely produce small effects, they produce no effects at all." If this is true, then social progress depends upon those epoch-making changes that revolutions inaugurate, and must be brought about by the revolutionary measures that disturb the normal growth of society.

In contrast with this, evolution proceeds by small changes that are persistent in their action, and therefore create cumulative effects. There are also those which can be measured objectively. The changes that follow can usually be represented by some statistical curves. This gives to evolutionary concepts a material form and emphasizes the slow changes that progress is making. Such changes give but little place for heroic action. The man who makes small improvements is usually a commonplace individual, and yet it is the accumulation of these small changes that reorganizes society, and in the end improves its tone and character. The hero is out of place, except where militant action can create epoch-making changes.