

## ·REVIEWS·

## Progress in Economics

A GREAT DEAL is happening in economic theory, despite the insistence of many of its practitioners that nothing has happened since Alfred Marshall rehabilitated Ricardo before the turn of the century. A great deal of work is going on, a great deal of ferment, and even that rarest and most blessed of all kinds of professional progress, an amazing amount of recantation and changing of mind.

Appearances are sometimes to the contrary. As everyone knows, Professor Hayek has surveyed the record of the science and found it good; so much so that nations who have forgotten its wisdom to the slightest degree have found or will find themselves travelling the road to serfdom. No one would know from perusing Professor Hayek's account that such a thing as war or depression has ever existed under Free Private Enterprise, or that any economist entertains such a suspicion.

Again, Professor Schumpeter has ruminated on capitalism, socialism and democracy and has come to the conclusion even as Professor Hayek (and even as Professor Schumpeter himself these many years) that for almost everything good which we enjoy today or rejoice in history we are indebted to the genius of some capitalistic supersalesman unfettered by governmental interference. *Laissez-moi tranquille* was the beginning and the end of economic wisdom for Professor Adam Smith in the eighteenth century and it is good and will suffice for Professor Schumpeter in the twentieth.

Again, Professor Boulding has got from his chair to prove to all who will listen that the younger generation is no whit behindhand with the wisdom of their elders. Intensively he has examined the years of peace between the two great and lamented and *sui generis* wars ("the whole international economic order was disrupted by the first world war," the naughty thing). This is a tale of unremitting "overproduction," with victorious nations refusing indemnities from the vanquished because they are already suffocating in unsold goods; it is a tale of an unrelenting struggle for markets, for customers; of dumping because there is no "demand," of unemployment because there is no "demand." But the way of an economist is a joy forever: as a touchstone for the economics of peace

Professor Boulding recommends . . . frugality. "Puritans worked hard and consumed little. A more perfect recipe for economic progress could hardly be found."

No progress in economics, never progress in economics? Perhaps—if the picture were all of this cloth. But for one reason or another it is not. Maybe it is the depression with its spectacle of idle factories and starving families which has opened the eyes of some economists (the depression which Professor Hayek seems not to have heard about). Maybe it is the war with its unparalleled abundance for all and simultaneous unparalleled military output (although Professor Boulding still insists that war production is alternative to civilian consumption, something which he probably heard in an economics class). Whatever the reason, it is a fact that one bent on demonstrating the continuing unanimity of the professors of the "dismal" science in their age-old belief that all's well (or will be just as soon as the pendulum swings, if we let things alone) would have to turn aside from other conflicting data. One datum of recantation is Sir William Beveridge.

To look to individual employers [Sir William writes in 1945] for maintenance of demand and full employment is absurd. These things are not within the power of employers. They must therefore be undertaken by the State, under the supervision and pressure of democracy. . . .

According to the same authority full employment in a free society is no more an impossibility (as Professor Hayek would have us believe) than full employment under free private enterprise is a possibility (as the great majority of academicians have so long and so impatiently tried to convince us, with their reassuring talk about "local maladjustments" and "temporary frictions" and "healthy liquidations").

Professor H. Gordon Hayes is another entry among the traditional economists' bad debts. He too has become completely doubtful of the ability of businessmen to deliver the goods. He has publicly apologized to Hobson and Foster and Catchings and Uriel Crocker for the long contempt (not to say persecution) in which they have been held by the orthodox—to the community's material loss and political peril. And Professor Hayes mentions a book published by himself in 1928, in which he stood with these orthodox.

There is many another name which could be mentioned. A host of economists, young and old, have taken up cudgels against their scholastic brethren in the attempt to show them that the national debt can rise

indefinitely without harm to the country, that confiscatory upper-income-bracket taxation would not be accompanied by grass in the streets, that the question about womb-to-tomb social security is not whether we can afford it but whether we can afford to do without it.

Finally, it is little more than ten years since the late J. M. Keynes set off in his *General Theory* the pinwheel that has been spewing and sizzling through the academic dovecotes ever since: his suggestion that the rich and their saving, far from financing progress, actually impede it and his call for the euthanasia of the rentier.

Every student can well take heart from these signs. Nevertheless, there is some truth in the complaint of the entrenched opposition that these heretical and progressive contributions are but signs of the times. A glance through the new literature will indeed show that it is for the most part more "practical" than "theoretical"—that is, that it has its roots more in desperation and social conscience than in understanding of underlying forces and fundamental history-patterns or in clearing of troublesome intellectual myopia. After all, we must never forget that even Keynes considered neoclassical economics insufficient only because it was a special case. To take another example of the so-called "new economics," no one can deny that Professor Lerner's exposition of functional finance is a gem of modern reasoning. Nor should anyone forget that Professor Lerner has recently chosen to exhibit as an example of productivity the very same case also recently chosen by his colleague Professor Hayek: the activity of the speculator.

Professor Clarence E. Ayres' work,<sup>1</sup> then, is the first distinctly theoretical contribution to the Keynesian Revolution. To put this another way, it furnishes the foundations for that revolution. For the Keynesian program, he writes "has never in the past appeared to flow directly from any systematic analysis of the industrial economy of which it was the inescapable conclusion—from any way of thinking of which income redistribution was the characteristic expression. It has been a biological sport, without proper intellectual parentage."

It is just this "proper intellectual parentage," however, which may prove more practical than all the tracts for the times. "Obviously," Ayres says at one point, "this book [*The Divine Right of Capital*"] has been written in the conviction that intelligent modification of the existing

<sup>1</sup> "The Divine Right of Capital (Houghton Mifflin, 1946) and "The Theory of Economic Progress" (University of North Carolina Press, 1944) bear such a pervasive relation one to the other that they can conveniently be treated as a single effort.

social structure is still a possibility." But it is the *intelligent* in that phrase which his work italicizes, and which the heretical contributions already referred to overlook. They say, in effect, do such and such and you will attain full employment, or eliminate the business cycle. But they do not provide the understanding, the psychoanalysis of our present situation (which is largely an idea-situation, as Ayres forever insists) and for this reason the remedies, however sound, have failed to catch on.

The confusion of ideas which Ayres tries to clear, the confusion which is the source of our present economic dilemma, is really very simple; so simple in fact as to make one wonder if after all a mistake has been made. It is the confusion common to all citizens of industrial society that machines and goods are money. It is the idea of capital, "the idea to which we owe the scarcity from which depressions, wars, and revolutions germinate. . . . It is the idea that two quite different things are one and the same thing."

Our whole society [he continues] is profoundly convinced that money is good in and of itself; . . . indeed, that the progress of society itself depends upon the accumulation of money.

This is the idea of capital. Unfortunately for all of us, it is quite false. As everybody knows, the progress of any society depends upon its ability to enlarge the productive apparatus of the community.

But since in a business society money will buy anything those who control accumulations of money can buy and control the increasing productive apparatus that spells progress. "Therefore, it *seems* that money is the instrument of progress." As Ayres also puts it:

Capital is the money that capitalists accumulate. Capital is also the physical plant of industry that engineers design and workmen build with materials that other workmen fabricate with previously designed and built machines. These two, it seems, are one. Both are capital—and blessed be capital, for without it no economic progress is possible.

This is a very potent idea. Our society has been dominated by it more than by any other for something like four centuries. That is why it has come to be known as capitalism.

It is quite true that in our society businessmen wield tremendous power. The whole community depends upon the use of machinery. But businessmen exercise discretionary control over this machinery. There is therefore a very literal sense in which the whole community depends upon the decisions of businessmen—hence the belief in their creative rôle. No one

secreted locomotives by going without lunch. But "saving" is necessary because "investing" is necessary before the community is permitted to use its stock of machines. In all societies where there is some supreme authority—in kingdoms it is kings—this supreme authority gets the credit for being the author of the lives of the people there. Capitalism is such a theory of authorship.

It is this theory—this belief on the part of the community—which has determined the whole way in which modern institutional life is organized, especially as regards income-distribution. For what capital-accumulation means is obviously inequality of distribution. If money is to accumulate anywhere it obviously has to be drained from somewhere else. Those who have said capitalism should have less inequality miss the point: capitalism *is* inequality. Progress according to the belief of capitalist peoples necessarily depends on inequality as the source of the capital funds which produce progress.

It is the clear statement of this fact—that is, capital as an *idea*—and its corollaries which is Ayres' foremost contribution. It is also what is glaringly absent in the analysis of other heretics whose practical proposals are similar to his, and in all probability it is this absence which accounts for the lack of success which has attended these proposals so far. Economists with advanced and humane leanings are constrained no less than humbler folk by the long-ingrained (now almost instinctive) revulsion against killing the goose which lays the golden eggs. And until this community-wide hallucination—the belief in the beneficence of money funds—is laid bare for what it is, until, that is, the patient retraces the process by which he acquired his neurosis, we are unlikely to enter wholeheartedly upon any real cure. When we flounder in depression we shall look instead to the neurotic devices which stem from desperation and a lack of understanding, and which eventually preclude self-help: demagogues and dictators.

But once the idea becomes clear that money funds serve no ends but the ends of money funds, this opens the road to rectifying the flow of income (democratically, now) to rid modern society of the curse of depression and war. For how the flow of income should be rectified is now a commonplace. Almost everyone is familiar with the "purchasing power" theory of the under-consumptionists, with its corollaries concerning the export of unemployment and the international struggle for markets. And we are beginning to realize that the root-situation pointed to here

is the same that businessmen and governments have always been talking about when they complained of "lack of markets," "lack of investment outlets," "over-production," "flooding the market," even "scarcity of capital."

The only reason the industrial economy ever slows down and stops is that it runs out of markets. What is required for continuous prosperity is nothing more than that we should consume what we are able to produce. But because we are in bondage to the idea of capital we find it very difficult to do this. The idea of capital results in inequality, gross inequality of income. Although they do their level best, the folks who have got the money just can't spend it all. And the folks who could, haven't got it. We can't blame the rich for not spending more—after all, a man is doing pretty well when he helps the economy out to the tune of several limousines, a town and country mansion, and a yacht or so. So we must turn to the only group in the community who *can* help: the poor. A comprehensive social security program can provide the needed markets.

Where is the money coming from? "The money [to bolster up the small incomes] is coming from large incomes, of course." And "the perfect instrument for reducing the flow of income to large incomes is the direct progressive taxation of personal incomes." Ayres of course does not mean our present income tax laws ("we have gone through the motions of accepting the principle and enacting the tax—even passing a constitutional amendment to make it a part of the American Way of Life—but have taken care to do so in such a way as to defeat the operation of the principle on which we have purported to be acting"). He means a real income tax law, without loopholes and without exemption for capital gains, inheritances, bond interest, etc.—the familiar catalog known to every tax expert (and businessman).

Social security and progressive income taxation: these are the twin bases of what Ayres called "limited capitalism." And he makes a compelling case that these are what we need, and all that we need if we act quickly, to forestall the "inevitable" next depression and the really inevitable Leftist or Rightist revolution which would follow.

If we solve this problem [of providing a flow of mass-consumer purchasing power sufficient to absorb the entire product of industry] we shall then have an opportunity to tackle others. If we do not, all our present problems will merge in the general collapse . . . of Western society.

Ayres considers in detail (in *The Theory of Economic Progress*, which is on this point the more interesting of his two books to the professional economist) the general problem of which the idea of capital is one facet: Why do economists call ours a price economy? There is, he says, no *a priori* reason for believing and no statistical evidence to show that it is a price economy. Yet economists persist in the belief (and the practice) that it can be understood only in terms of price analysis.

No one doubts that prices play an important part in Western life. But machines, tools, skills, knowledge are no less widespread and of no less general concern to the community. Although economists say that "only by selling their products and services in the market do members of the community make a living" most people devote most of their time and energy to activities other than buying and selling.

In the face of these facts why has economics centered on price? For one reason, Ayres says: the significance imputed to price by Smith and Ricardo. The chaos of the economic struggle for existence, they said, is really an ordered chaos, an ordered chaos which works for happiness. No one can say what happiness is but no one needs say for the price system provides an instrument through the subtle operation of which every man can have his say. Each man registers his desires in his purchases; commerce in this fashion gathers up and expresses the aspirations of the race.

But this argument is true only so long as wants are "primary data," so long as it is assumed that these wants expressed in price are significant. The mores-theory teaching that wants have social origins and are relative to place and time completely destroys this assumption. "If the things people value are just the things those people happen to value, then demand means nothing beyond the bare fact that this is what is demanded."

Of course it is not quite true that all values are of this relative kind. Most undoubtedly are. But

human nature has . . . two sides. One is that of fad and fancy; the other is that of art and science, knowledge, skill, and ingenuity. Some values are those of fad and fancy. These are relative, notwithstanding the fact that such fancies are often very extensive and deeply ingrained. . . . But at the same time some values are real, certain, permanent, and progressive. These are the real achievements of mankind. The Parthenon was a great architectural achievement and what it has contributed to the building arts of later ages still lives and grows, notwithstanding the fact that the worship of Pallas Athena was miserable nonsense.

It is of course true that all miserable nonsense claims to be effective in

the same way that tools are. All the mores claim instrumental validity. Napoleon is given credit for every achievement on *Animal Farm* (just as Snowball gets the blame for every misfortune) and we credit the abstinence of widows and orphans for "making possible" American industrial development. But the latter way of thinking like the former is a fairy tale, as we are beginning to see. Through the ages every community has owed its life to its heritage of tools and apparatus and to the "know-how" associated with them. It is by carrying on this tool-activity that every community and every individual makes a living. Once this tool-achievement, typified by the Parthenon, is recognized as the real life-process of mankind the myth of capital and the numerology of price will disappear.

Once the idea that fund accumulation is the source of progress is unmasked as a theory of authorship we itch to have a plausible account of the Industrial Revolution. The spirit of capitalism or even of Protestantism cannot explain it; the real causes of industrial growth are science and invention, the spread of literacy and enlightenment. We can see this going on every day around us. But what were the particular circumstances in the eighteenth century?

It is here, drawing on the Belgian historian Henri Pirenne, that Ayres makes one of his brilliant contributions to economic history, a contribution which is intimately connected with his general economic theory and his rejection of price analysis. It was no accident that Western Europe burst out "all of a sudden" with steam engines, flying shuttles and spinning jennys. The Middle Ages were far less dormant than we suppose. There was, for instance, what a great medievalist calls a "revolution in transport" in the twelfth century. The Mongols had brought in the Chinese art of printing, and ocean-going ships were developing. Later the laws of the expansion of gases were discovered—in the century preceding the invention of the steam engine; and Boyle and Hooke, Newton and Harvey, Huygens and Galileo were all of that century, a golden age of science. Moreover Western Europe for some time had been a frontier community. "It was not so much that Rome fell as that Gaul fell away. The Roman Empire persisted almost to the time of Columbus, but Western Europe was not a part of it." Frontiers are less habit-bound than other communities, more susceptible to those combinations of inventions which are new inventions. The industrial revolution breaks out wherever the institutional barriers are down, as they were in Europe. "Industrial revolution is not a consequence of something else. It has been going on

always. What we see now is the last item of a continuous series of inventions and discoveries of which the first was perhaps the discovery of fire long before the evolution of the present species of man."

It is the continuance or discontinuance of this life-process which is in the balance now. There are many economists who sneer at the idea of full employment and full production as crass materialism and mere "gadgetry," "making machines to make more machines to make more machines." It may be that we as a community will be led by these sneers to sacrifice production for some immaterial idea—perhaps the idea of Professors Hayek, Schumpeter and Boulding that the accumulation of capital is necessary for salvation. But if we do we will have chucked real values for verbiage and myth-making. For the whole weight of modern social thinking behind modern progress in economics backs the idea that

Full production means the continuation and enlargement of the life process of mankind. That is what gives substance and meaning to those eloquent but otherwise empty phrases in which we bespeak human life and personality, the fuller realization of our potentialities as human beings, and a greater measure of the creative achievements of the human spirit.

ELGIN WILLIAMS

*University of Washington*

*A Marine's Legacy.* By Grayson D. Williams. New York: William-Frederick Press, 1949; 43 pp., \$1.

When Hitler invaded Poland, Mr. Williams began compiling this anthology of what leading thinkers have written on the stupidity of war. He continued his task as a master sergeant in the U.S. Marine Corps, intending to leave his work as a legacy if he did not survive the holocaust. Many familiar as well as a few unfamiliar quotations are here gathered together.

*Rebels of Individualism.* By Jack Schwartzman. New York (293 Sunrise Highway, Lynbrook): The Exposition Press, \$2.50.

The personalities and the ideas of fifteen thinkers who have contributed to the tradition of individualism are sketched here with insight and feeling. This interesting collection of essays deals with Charvaka, Lao-tse, Isaiah, Mencius, Epicurus, Zeno, Lucretius, Locke, Paine, Bastiat, Stirner, Thoreau, Spencer, Tolstoy and George.