

· R E V I E W S ·

The Search for Economic Principles

Economics. By John Ise. New York and London: Harper & Brothers, 1946, x + 731 pp., biblio., index, \$4.

Two trends are apparent in the writing of economics texts. The first is the gradual elimination of the old "principles"—better known to students as "those damned curves"—in favor of descriptive material or "problems." The second is the gradual integration of the descriptive or problem material itself: the old grab-bag of statistics and homiletics is being replaced by something like an over-all approach.

The two trends are of course related, for both reflect the experience of the last few decades, especially the depression and the war experience. During this time a great deal of knowledge has accumulated as to how the economic system functions. This knowledge has come to hand in forms which simply cannot be translated into the "curves" of price and value analysis—there is something definitely *non*-marginal about 1929-47 in the U.S., for instance, or the growth of Hitlerism—and thus space formerly allotted to price and value analysis is encroached upon by the new material. At the same time the growth of this new knowledge has inevitably resulted in its own synthesis and integration.

The chief instrument in this process of synthesis has been the concept of economic inequality or "deficiency of demand." This concept is the intellectual reflection of what the new economic text of Professor John Ise calls "the problem that perennially plagues capitalist nations—how to distribute enough purchasing power to enable the people who need goods to buy them, and so keep the productive machinery running at capacity" (p. 641).

As the key concept which has so far been turned up in the current search for (new) economic principles, the "distribution" or "purchasing power" doctrine has long done yeoman duty in the realm of reform, as the quotation from Professor Ise suggests. The new departure in the use of the doctrine concerns the explanation, however, not of "what should be" but of "what is." It is in that part of the text-book formerly devoted to principles rather than in the old "grab-bag" that the vantage-point of purchasing-power and demand, more especially the perennial deficiency of purchasing power and demand, is coming to be employed by

many, although not all, of the scribes for the introductory economics course.

Thus for instance, the material of the introductory text formerly treated abstractly as "principles" of price formation is already passably subsumed under what used to be called the "problem of monopoly" and is now seen to be an aspect of deficiency of demand. It is recognized more or less generally, in other words, that business combination and consolidation—and therefore the typical phenomena of price rigidity—are business reactions to the threat of over-production constantly imposed by "deficiency of demand." As Professor Ise says, "in monopolistic competition . . . the demand curve slopes *moderately*, and as a result the producer has *some* incentive to restrict production; in monopoly . . . the demand . . . curve slopes *more steeply*, and therefore the monopolist has a *strong* incentive to restrict production" (p. 257).

Although expressed in "curve" terminology this statement of Professor Ise's shows the possibility and the tendency to employ the concept of deficiency of demand to explain economic phenomena which formerly could only be inveighed against.

In the process of explanation and description of the other varieties of price formation new principles are created which over-ride the former boundaries of theory. Professor Ise points out, for instance, that those prices not yet escaping the limited market by an industry "Office of Price Administration" contrive to do so through government subsidy and restriction of one kind or another. In the thirties "there was a surplus of farm products and prices were low. . . . The New Dealers decided that agriculture could never prosper as an almost purely competitive enterprise, so they proceeded to make a sort of government-controlled monopoly of it under the AAA, reducing production and raising prices just as businessmen did in urban industries" (p. 595).

To bring this government-sponsored restriction in agriculture into the same theoretical account with that of industrial restriction it is only necessary to elucidate the meaning of a "surplus of farm products." As Professor Ise points out, "surpluses" is only another way of saying "sloping demand curves" and of raising "the old problem of distributing enough purchasing power among consumers to keep industry operating" (pp. 689-90). Obviously an absolute surplus of either farm or industrial products has never existed. "Our experience during this war," he writes, "suggests that the surplus of some agricultural products which has plagued us in recent years would melt away if the masses of the people had incomes

large enough to enable them to buy what they really need" (p. 184). The same is true of "surplus" capital. "We have no surplus capital in the sense that we have more than is needed to produce the goods our people need" (p. 692).

In such ways and to such a degree has the old "purchasing power problem" approach, put in bold relief by the war, invaded one important set of "principles" in Professor Ise's text, those having to do with price formation. Another main office of the introductory text traditionally has been to instruct with regard to the distribution of income among the various "factors of production," and here too the encroachment of the purchasing power doctrine is considerable.

It is obvious in the first place that the theory of return to the factors of "land" and "capital" is taken care of in part by the theory of price formation in agriculture and industry. Restriction of production in both fields not only stems from the inadequate income of consumers but it aims at guaranteeing the incomes of farmers, industrialists, and investors. Such generalizations provide fit replacement for the former banalities concerning "utility" and "productivity." Moreover, in a contribution to the dynamics of income distribution which draws still further on the principle of "deficiency of demand," Professor Ise points out that these efforts to stabilize profits and farm income are self-defeating even in the most monopolistic instances. He suggests that before the war an increase of \$2.25 a day, for instance, in the income of the sixty per cent of the population who receive \$1,250 a year or less would have meant almost a billion-dollar increase in expenditures for food, and for other items in proportion. Without such increases—given, that is to say, the present radically unequal distribution of income—even the favored income classes must expect depression cuts when the war boom plays out. Such cuts are inevitable because "American industry cannot profitably maintain itself from the proceeds of sales to that portion [3 per cent] of our families that has incomes of more than \$5,000"—or even the 13 per cent which receives more than \$2,500 (p. 584).¹

Parallel to the restriction of entry and output which characterizes industry and agriculture as their reaction to "deficiency of demand"—the limited market for goods—is the restriction of entry and output by labor unions as their reaction to the limited market for labor. "The demand curve for plumbers' services," Professor Ise notes, "like practically all demand curves, slopes downward to the right" (p. 383). This constant

¹ The dollar figures would of course be higher at the present time (1947-8).

tendency to a "surplus" of plumbers and other workers, stemming from the lack of demand which enforces "surpluses" of agricultural and industrial products, is at the root of the monopolistic practices of labor unions. "However unfortunate the results may be, it is not surprising that organized labor . . . has fought to retain jobs" just as businessmen fight to retain markets (p. 408).

The "deficiency of demand" approach has thus been utilized by Professor Ise in the traditional divisions of economic theory having to do with price and income determination. Although not always dealt with in the same fashion these questions of price and income determination are treated in all economic textbooks—usually in terms of "price inflexibility." Nearly one-third of Professor Ise's book, however, is devoted to questions which are not discussed in most other texts, and in this section on "General Aspects of Capitalism" the guiding tool of explanation is again the concept of the limited market.

This section is of such wide range and import that attention can be paid here but to a part. But this part treats two of the characteristic phenomena of capitalism which are of the greatest importance yet have been generally overlooked in the introductory economics course; namely, imperialism and war in their relation to domestic business cycles and depression. It is plain from Professor Ise's exposition that these two phenomena are like their restrictionist brethren in the domestic field to a large extent aspects of "the problem that perennially plagues capitalist nations—how to distribute enough purchasing power."

The productivity of modern industry [he writes] is so great that producers are often unable to operate at full capacity because they cannot find markets In order to keep their prices up these producers must either restrict production or find foreign markets, or both; and they wage an aggressive search for foreign markets in order to maintain at least the output which will yield them maximum profits. Exporting manufacturers obviously prefer to have political control over the peoples to whom they export, for it may enable them to prevent these peoples from imposing high tariffs against them; it might even be possible to persuade them to impose such tariffs against their competitors . . . (p. 557).

Accompanying the need for markets is "the need for foreign fields in which to invest surplus savings"—the surplus savings of the rich is of course merely the other side of the coin of the inadequate consumption of the masses. An upshot of the twin imperialist drives for foreign investment and foreign markets may be local or world war.

Capitalism, particularly what is often called monopoly capitalism, is strongly expansive. Modern industry is vastly productive, and foreign

markets are demanded for the goods produced; great capitalist combinations are profitable, and foreign investments are needed for surplus savings. . . . Capitalists inevitably clash in their quest for foreign markets, investments, and raw materials; and since they are usually backed by their governments, which they largely control, wars result (p. 567).

It might be added that deficiency of demand contributes to the causes of war in a third way in that it creates unemployment and depression and with it that discontent and desire for "leadership" which is fertile ground for *Führers* and their schemes of aggression.

It is not surprising that with such realities as war and imperialism to investigate that Professor Ise has announced at the beginning of his treatise that "the intricacies of value analysis are not elaborated as fully as in a few recent works" (p. ix).² There remains the problem, however, of why "the intricacies of value analysis" are elaborated as fully as they are, and with them the "curves" which constitute much of the rest of traditional economic "principles." At least a fourth of Professor Ise's book is devoted to material of which the following statement is a sample:

The ATUC curve reaches its lowest point to the right of the lowest point on the AVC curve. Why is this? It is because total costs include fixed as well as variable costs; and the curve of average fixed costs, AFC, to the right of the line OY, crowds the ATUC curve to the right of the AVC curve (p. 215).

And this fourth of the book is replete with that "diagrammatic presentation" which is the despair of the student and the source of a great many man hours of *apologia pro vita sua* on the part of the economics teaching profession.

The reason this sort of thing continues to take up space, not only in Professor Ise's excellent text but in most of his contemporaries', seems to be, very simply: habit. Economists learned how to draw curves when they were students, it is natural that *their* students get the benefit of this learning, and the whole complex is perpetuated after the fashion of an intellectual vested interest.

Even such an explanation as this, however, probably goes too far.

² Like all good heretics, however, he denies his heresy: "Economics and business majors . . . should of course have additional and more intensive work on value" (p. ix). That such an avowal has strategic importance is suggested by the pique felt by the reviewer of Valdemar Carlson's "An Introduction to Modern Economics" (Philadelphia, 1946) a text like Professor Ise's both in that it employs the purchasing-power approach and that it is likely to be denounced as "communistic." "In his introduction," the reviewer of Carlson's text writes, "Carlson says, 'Some economists will deplore the omission of any formal discussion of distribution.' Certainly nothing need be added!" (*American Economic Review*, xxxvii, p. 432). There is no doubt that heresy in the writing of textbooks is here deplored.

Economists are no more habit-ridden than other men and in recent years have shown an almost pathetic eagerness to embrace new doctrine. Although most of this has been the same old hooch in brightly labelled new bottles—after all, publishers must live!—part of it represents a sincere attempt to bring the science into closer grips with the demand for new principles of theory. The monopolistic competition analysis, for example, differs only in its policy recommendations from the “deficiency of demand” analysis.

Leftists, of course, say that the vested interest of economists, however often superficial changes occur in their apparatus, is not intellectual; that the whole barrage of curves and formulae is a smokescreen behind which the realities of capitalism are hidden and the professors assured of the support of the *status quo*. As is obvious from the foregoing summary of Professor Ise's book this charge is false. Moreover such consideration of the “decline of capitalism” as now appears in economics texts has already brought their authors into conflict with the guardians of the *status quo*, the “smokescreens” to the contrary notwithstanding. No less an established publishing firm than Harper's, for instance, has recently had to defend two of its introductions to economics, one of them Professor Ise's, from the charges, by the Small Businessmen's Association and others, that they are “communistic” and “Red.”

DeWitt Emery [reads a Harper's advertisement entitled “Is the Witch-hunt on in American Colleges?”] President of the Small Businessmen's Association, quoting a few passages on progressive taxation out of the context of [one of the text books] has been widely quoted in the press as saying, “I don't know what you call this kind of stuff, but to me it's pure Communism.”

But publishers are likely to prove disappointed if they believe that informing their authors' detractors that the books in question advocate nothing more radical than progressive taxation will stop the witch hunt. After all, the “deficiency of demand” analysis and the advocacy of such measures as progressive taxation which follows from it *are* radical in the sense that they point to a fatal defect in the present economy.

As Professor Ise says, “world developments over the past twenty-five years prove that our economic system is not in a sound condition” and “it may presently have to be abandoned” (p. ix). And as even so-called “small” businessmen know, such a reform as taxation progressive enough to eliminate over-saving and through some sort of distribution of the proceeds “enable the people who need goods to buy them” strikes at the

heart of absolute capitalism. To absolute capitalists, such proposals are indeed "pure communism" and professors can be safe only by devoting their whole time to the promulgation of innocuous and enervating "diagrammatic presentation." But the whole trend of modern experience points to a fundamental change in viewpoint on the unstemmed capital accumulation and the accompanying radical economic inequality now regarded as the *summum bonum* of society, and with it an acceleration of the trends of text-book writing so apparent in Professor Ise's work. On this issue the writers of text-books like economists in general are being forced in their very search for economic principles to take a stand. Gentlemen, which side are you on?

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