Words of Praise for *Economics: From the Dismal Science to the Moral Science The Moral Economics of Kendall P. Cochran*

"I have never been able to see how there can be interesting 'economics' separate from 'institutional economics' and vice versa. After all, markets are social institutions and so are various forms of property. Economics is really about how they work. I suspect Professor Cochran understood this and tried to teach it and it is time to learn for all of us."
—Robert Solow, Professor Emeritus, MIT, Nobel Laureate 1987

"This book provides a major contribution to contemporary economic thought. It provides a timely and timeless analysis that explores all of the relevant issues necessary to assess the optimal role and size of government in our modern-day capitalist society. The writings of Professor Cochran should be especially valuable to anyone willing to explore these issues with open eyes and an open mind. A great feature of the book is the introductory material for each chapter, in which former students and colleagues provide enormous value by placing Professor Cochran's views and writings into the context of 21st century American debates. As a person who has written extensively on the issue of financial institutions that are *Too Big to Fail* and the horrendous costs they have imposed on society, I wish that much of the guidance and precepts espoused by Professor Cochran had been put into practice years ago. Incentives truly matter, and Professor Cochran's writings offer special guidance and insights into getting economic incentives right by not ignoring the important moral precepts contained in Adam Smith's original writings."
—Harvey Rosenblum, Executive Vice President and Director of Research (retired), Federal Reserve Bank of Dallas and Adjunct Professor of Finance, Cox School of Business, Southern Methodist University

"This collection of articles and reviews is of great significance to our age, an age in which reactionary members of the U.S. Congress have had enough influence to shut down the government, not once but twice. The poor and the dispossessed should not be pushed down even further by austerity economics. Economics is not a value-free science. If it were, it would be of no value. Instead, economics is a moral science. Read what Cochran has to say about these moral issues and you sit at the feet of a great teacher."
—William M. Dugger, Professor of Economics, The University of Tulsa

"Those who are not economists may find this book easier to read than expected. Unlike many books on economics, or so it seems to this non-economist, it is not riddled with jargon, or cluttered with unneeded citations, and the ideas are clearly stated. Moreover, the ideas seem not to be bubbles of academic fancy but connected to the average person's view of reality. In short, in structure and expression it seems a model of its type."
—George W. Martin, author of *Madam Secretary, Frances Perkins*, the biography of America's first female cabinet member who was responsible for the Social Security Act of 1935 and still has a hand in our lives.

"Moral Economics. In these days of grab-and-go corporate ethics, abetted by the gross money-corruption of our government, it's almost quaint to see these two words linked. But Ken Cochran believed that any society that separated them could not really be called a society, much less a just one. His writings are timely guideposts for us today, as worker rebellions are gaining traction and various voices -- from Occupy to the Pope -- are tapping into people's yearning for a moral economy of fairness and equal opportunity for all."

—Jim Hightower, author, speaker, radio commentator, editor of *The Hightower Lowdown* and author of *Thieves in High Places*

"The republication of Ken Cochran's demonstration that economics is a moral science and that the economy operates within a matrix of institutions could not be more welcome at the present time. This volume makes an excellent contribution to current discussions about economics and its purposes."
—John Davis, past president of the Association of Social Economics and past editor of the *Review of Social Economics*, Professor of Economics, Marquette University and the University of Amsterdam

"This book is based on articles written by Professor Kendall Cochran. The articles reflect clearly his conviction that economics is a moral science and that economists have an obligation to consider the consequences of their policy recommendations."
—Horace Brock, Distinguished Professor of Accounting and former Director of the Institute of Petroleum Accounting at the University of North Texas

Economics: From the Dismal Science to the Moral Science

The Moral Economics of Kendall P. Cochran

Professor Kendall Cochran was a leader in the American institutionalist school of heterodox economics. This volume includes twenty published articles and book reviews, as well as several talks given by Cochran. In these, he examines some of the fundamental prerequisites for government involvement in the economy. Early institutional economists did have a concern for economic planning and reform. Kendall Cochran has advanced heterodox economics by adding to the examination and scientific explanations of the status quo, the underpinnings of the institutional, historical, technological, and social forces that shape the economy. In essence, he took the *dismal science* and made it into a *moral science*.

Thus, the economist has a moral responsibility to help society see where it might go. Today, the moral dilemma facing society, and thus economists, is not to defend the status quo with models, equations, etc., but to argue for social change as well as for the explicit implementation of moral or value judgments in this change. Essential to our reasoning is that moral assumptions challenge the traditional ownership of the means of production, the setting of prices, and the distribution of income.

Recent revelations of the truth about austerity provide a wake-up call to everyone who was willing to go along with the nonsensical notion that the best way to create jobs is to lay off teachers, police officers, and other government employees. Government has a very important role to play, especially when the economy is sluggish and failing to generate sufficient jobs, and economists must ensure that the role of government is understood by all. Cochran's moral science creates an expectation that economists think about the consequences of their policy recommendations.

These articles provide the basic understanding required to analyze the market, not as a self-adjusting one, but rather one based upon rational and moral assumptions to achieve a desired end for society as a whole. If it takes government intervention, rather than a haphazard pattern of different assumptions and results that later may be found to be invalid--so be it. This volume will be of most interest and value to policymakers, professional economists, and graduate students, all of whom are looking to expand the scope of economics and raise it to a level that will increase the well-being of society as a whole. That is the true role and goal of the institutional economists.

Kendall P. Cochran is deceased, but served as Chairman and Professor of Economics at the University of North Texas. **Susan McHargue Dadres** is Senior Lecturer in Economics at University of North Texas. **Mona S. Hersh-Cochran** is Professor Emerita at Texas Woman's University. **David J. Molina** is Associate Professor of Economics at University of North Texas.

ECONOMICS: FROM THE DISMAL SCIENCE TO THE MORAL SCIENCE

The Moral Economics of Kendall P. Cochran

Second Edition

Edited by

Susan McHargue Dadres,
Mona S. Hersh-Cochran,
and David J. Molina

Eagle Editions
An Imprint of the University of North Texas Libraries
Denton

Published by
University of North Texas Libraries
1155 Union Circle #305190
Denton, TX 76203-5017

Published 2015.
Printed in the United States of America
ISBN: 978-1-68040-000-7
DOI: http://dx.doi.org/10.12794/sps.economics-000-7

To Paula, Susan, and Kenneth Hersh
and all the former students

CONTENTS

Preface *1*
Acknowledgements *4*
Important Economic Terms *5*
Biography *6*
Reflections from a Student *11*
Tribute by W. M. Dugger *13*

Part 1 Economics: The Moral Science 15
Economics as a Moral Science 17
Ethics, Values, and the Affluent Economy 33
Academic Freedom and Tenure: Amarillo College 53
The Morality of Affluence 91
Why a Social Economics? 101

Part 2 The Need for Government Policy 117
Priority Problems in the Seventies 119
Reactions to a Speech by Mr. Ira Corn on the Future of Business Enterprise 131
A Question of Assumptions 135

Part 3 The Relevancy of Institutional Thought 147
The Rules of the Game 149
Institutional Theory and Economic Planning 167
Economic Theory: From Value-Free to Value-Defensive to Value-Committed 175

The Epistemological Foundations of American Institutionalist Thought: The Role of Assumptions in the Formation of Economic Policy 185
The Instrumentalist Foundation for Institutionalist Economic Thought: Human Direction versus Automatism 197

Part 4 The Importance of Economic Education 209
Every Man His Own Economist 211
Goals for Economic Education 219
Economics as a Science 227

Part 5 Book Reviews 237
Review of *Medical Costs, Moral Choices: A Philosophy of Health Care Economics in America* by Paul T. Menzel 237
Review of *Wealth and Poverty* by George Gilder 240
Review of *Common Decency and Domestic Policies after Reagan* by Alvin L. Schorr 244
Review of *Wall Street: Security Risk* by Hurd Baruch 248

Index 253

PREFACE

Adam Smith published *The Theory of Moral Sentiments* in 1759 and established the ethical foundation for *The Wealth of Nations* (1776) as well as the important role played by custom and fashion in shaping behaviors and outcomes. Kendall P. Cochran believed in Smith's emphasis on value-driven analysis and seeking solutions to major problems of the day. Cochran believed that economists moved too far in the direction of analysis free of words like *ought* and *should* and devoted his career to establishing that economics is a ***moral science***.

A recent study by two Harvard professors, Carmen Reinhart and Kenneth Rogoff, *Growth in a Time of Debt* (2010), asserted that healthy economic growth and high levels of government debt are incompatible. These conclusions are associated with the austerity movement, which calls for policymakers to reduce government spending in order to reduce the government's debt and improve long-term growth prospects. The austerity movement has been used to justify the sharp decline in public sector employment that has restrained job growth since the recession of 2007.

In 2013, a graduate student named Thomas Herndon discovered an error in the calculations of Reinhart and Rogoff, publishing his findings in a paper co-authored by his professors, called *Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff*. These findings call the entire austerity movement into question, causing many to reconsider the current obsession with reducing the government debt during a time of economic stagnation. Cochran would have held a celebration to toast Thomas Herndon and his professors for their work, not only for the sake of technical accuracy, but also because the policy prescriptions associated with the austerity movement are misguided and harmful to the unemployed and underemployed during times of economic hardship.

Cochran's articles are significant at this time because he is able to argue persuasively that economists have a moral obligation to provide policy recommendations that are consistent with a social agenda of fairness and opportunity. While many agree with Adam Smith that individuals are motivated by self-interest, it does not follow that any action or policy that promotes an individual's self-interest is therefore worthwhile or beneficial from society's perspective. If a person is handsomely rewarded for placing a bomb in the city center, does the potential gain for that individual justify the harm to society? Cochran makes an eloquent case that economists must identify instances in which government policy can and should be used to protect and promote society's well-being.

Modern economists as a group have largely ignored moral arguments in favor of mathematical properties and stylized facts. There are a few exceptions. Paul Krugman, in his 2007 book *The Conscience of a Liberal*, made a compelling case for universal health insurance. In 2012, Robert Reich published *Beyond Outrage* and laid to rest the notion that "greed is good." These economists understand Cochran's claim that economics should be a moral science, but this notion really should be introduced to college students, before they qualify for the board room or the trading floor.

Today's students of economics are comfortable with solving a mathematical model to demonstrate the optimal combination of leisure and income a rational decision-maker will choose given the opportunity to collect welfare checks. They graph Lorenz Curves and calculate Gini coefficients to quantify the degree of income inequality present in a given income distribution. And they know how to use census data to get current statistics on poverty, education, housing, and so forth. What they really need, to round out their education and allow them to become the economic advisors today's policymakers require, is to understand the moral arguments supporting government programs designed to increase the general welfare and to make appropriate judgments. The collection of articles contained in this volume provides exactly that.

Susan McHargue Dadres
Senior Lecturer
University of North Texas
Denton, Texas

REFERENCES

A. Smith. (2002). *The Theory of Moral Sentiments*. Cambridge University Press: Cambridge.

———. (1976). *An Inquiry into the Nature and Causes of the Wealth of Nations*. Clarendon Press: Oxford.

Herndon, T., Ash, M., & Pollin, R. (2013). "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff." *Political Economy Research Institute, Working Paper Series*, 322.

Krugman, P. (2007). *The Conscience of a Liberal*. W. W. Norton: New York.

Reich, R. (2012). *Beyond Outrage*. Random House: New York.

Reinhart, C. & Rogoff, K. (2010). "Growth in a Time of Debt." *American Economic Review: Papers & Proceedings*, 100.

Acknowledgments

Thanks to:

William M. Dugger for suggesting this timely topic and his intellectual guidance and the brilliant format of *Cultural Economics and Theory: The Evolutionary Economics of David Hamilton*.

Kendall P. Cochran's colleagues and students at the University of North Texas who are carrying on his ideologies and seminal works.

Clovis Morrisson, George Martin, Laurie Hammett, John Davis, Mike Nieswiadomy, Michael Lawler, Horace Brock, Gabe Hornstein, Ali Dadres, Karen DeVinney, J. Holder Bennett, Becky Baird, and Caleb Butler for their valuable assistance, editing, and critical evaluation of this tome. Any errors or omissions are solely the responsibility of the authors.

Students who were inspired to enter academia, government, and business with the basic underpinnings of morally independent institutionalist thought.

IMPORTANT ECONOMIC TERMS

Epistemology: is the study of knowledge and justified belief. Scholars who study the history of economic thought want to understand the values, beliefs, principles, and rules that have guided economic analysis.

Heterodox: ideas or beliefs differ from generally accepted ideas or beliefs. While mainstream economists adhere to certain methodologies and assumptions about the purpose of economic inquiry, heterodox economists offer a critique of the status quo.

Institutional Economics: is a school of thought that emerged just before the Great Depression and emphasized the importance of social customs in explaining how people live. Institutional thinkers are most concerned with solving society's problems.

Normative Economic Analysis: is concerned with what *ought* to be, while **positive** economic analysis focuses on explaining the way things are. For example, a positive economic statement might be that many families lack access to basic health care; a normative statement might be that government ought to take action to solve this problem.

BIOGRAPHY OF KENDALL PINNEY COCHRAN

CONTRIBUTIONS TO HETERODOX ECONOMICS

Kendall Pinney Cochran, Ph.D., devoted his professional career to the research, writing, and teaching of economics as a moral science, stressing always the importance of incorporating social and ethical values into economic analysis and the application of such analysis to social issues. The reason Cochran's work deserves to be brought to the attention of modern readers is that his message still needs to be heard in a society plagued by poverty, hunger, homelessness, inequality, and needless suffering.

Cochran was born on October 12, 1924, in Newton, Kansas, and passed away on November 30, 2007, in Dallas, Texas. He graduated from Newton High School in 1942 after enlisting following Pearl Harbor and serving in the U.S. Army Air Corps. Upon discharge and with the G. I. Bill, he enrolled in the University of Texas, serving as President of the Campus Guild (Men's Co-op), becoming a member of Phi Beta Kappa (Honorary Fraternity for Men and Women in Arts and Sciences), elected to Friars (awarded to the eight most eligible members of the senior class), and Cowboys (Honorary service organization for men).He majored in Economics, earning a B. A. cum laude in 1949 and an M. A. in 1950.While a graduate student he worked as a research assistant for the most famous institutional economist at UT, Professor Clarence E. Ayres.

Cochran's interest in the area of government and the economy was sparked by a course in the summer of 1948 by Professor Carey C. Thompson called the "Economics of Social Security." As a result, Cochran's Master's thesis was entitled *The Aid to Dependent Children Program in Texas* in which he concluded that the ADC program in Texas was painfully inadequate due to lack of funding and reliance on federal aid—all based on the false assumption that ADC is an expense which should be kept to a minimum, rather than an investment in human capital.

Upon completing his M.A., Cochran entered the economics program at Ohio State University, serving as an Instructor of Economics while finishing his doctoral work. His Ph. D. dissertation entitled *The Concept of Economic Planning in Institutional Economics* showed the unifying characteristics of a seemingly heterogeneous and diverse group of economists who appear to many to have no real resemblance except that they are commonly labeled as institutionalists. It is the thesis of the study, however, that there is one important characteristic which does unify these economists: their concern for economic planning and reform. The study, therefore, has a twofold purpose. One is to explore and to clarify this previously neglected facet of institutional economics. The second is to show that this concern for economic planning and reform is not fortuitous, but stems from, and is closely correlated with, the philosophical, psychological, sociological, and methodological views common to the institutional economists.

Contrary to the procedure often followed in most previous studies of institutional economists, attention here is not centered upon them as individuals. Rather, the aim is to show that among their diverse writings, a high degree of unity exists.

The economists included are Clarence E. Ayres, John M. Clark, John R. Commons, Walton Hamilton, Wesley C. Mitchell, and Rexford G. Tugwell. Although Thorstein Veblen is generally regarded as the founder of institutionalism, he differed so markedly in his outlook and general conclusions as to warrant exclusion from this particular study. Specifically, Veblen had no faith in the ability of social control to solve or ameliorate the problems of the economic system; much more drastic action was needed if any reform was to be achieved.

Recent institutionalists, on the other hand, strongly argued for the necessity of the collective use of social intelligence to improve and reform the economic system without the drastic alterations called for by Veblen. They insisted, therefore, that it is the function of the economist to use the science of economics and its body of accumulated knowledge of the problems and potentialities of the economic system as a tool for social and economic criticism and reform.

Cochran's Ph.D. dissertation thus attempts to show that the minutiae and details of institutional economics are closely interrelated, that when taken together they do form a larger and more consistent pattern than when viewed separately, and that this larger pattern centers in their contribution to the collective use of social intelligence to make the economic system function more efficiently. The major points of this interrelated pattern are: the institutionalists' concept of economics and the function of the economist, their views as related to scope and method, the importance of the evolutionary point of view and of the concept of relativity, their epistemological views, their concepts of human nature and psychology, their conception of society and the relationship between the individual and society, their conviction of the efficacy of the price system as an organizing mechanism, their views of the objectives of economic planning, and their insistence on the importance of social-economic planning as an alternative to dictatorship. Each of these major concepts has been examined from the viewpoint of each of the chosen economists to clarify their concept of economic planning and to examine the elements in their thinking which led to that concept.

After serving two years as Assistant Professor of Economics at Ohio State, Cochran moved on to the North Texas State University, later called the University of North Texas, and helped to establish the Faculty Senate, the Honors program, and a series of interdisciplinary seminars for chosen gifted undergraduates covering the University's core curriculum. Cochran and two other professors blended economics, political science, and geography in their course. This seminar, as well as all the others in the program, put huge demands on the faculty. Many meetings were held by each team to figure out how to blend the three disciplines, what resource materials to choose, and how to approach each class session. These faculty members only got a one-course reduction in their regular teaching load to take part in the program, so they all did it as a labor of love of education and of these bright students. Cochran's evaluations at the end of each of the four semesters he conducted were notable for their detail and depth of understanding. Almost every one of the original students graduated the University of North Texas, having received a remarkable education from this former teachers college, and it was all due to the outstanding academic service of Cochran and the other program faculty.

The program was far too ambitious to last for long. As faculty teaching loads were reduced all over the country to encourage research and publication, UNT was no longer able to recruit the best faculty members for the Honors Program. But the Honors College that exists today stands on the shoulders of this progressive and intensive program.

Cochran had an extensive professional career which included Professor and Chairman of the Economics Department, University of North Texas, 1957–1988.The University of North Texas honored him with a “Special Recognition Award” for his “dedication to teaching, research, and his long and distinguished record of service to the University.” He was honored to receive the “Fessor Graham Award for Teacher of the Year” from the UNT Student Government Association and the “Distinguished Teaching Award” from the UNT Alumni Association. He retired in 1988 from the University of North Texas having created the Department of Economics, a legacy of scholarship and leadership in social economic theory and a fraternity of thousands of students he taught and mentored who became inspired and motivated to personal and academic heights.

In addition to his teaching career, Kendall Cochran made significant contributions to his field of study—the revolutionary idea, at the time, that economics should be studied and applied in a moral and ethical context. He had a long and distinguished career as a productive and active member of the Association of Social Economics (formerly the Catholic Economic Society), having served as its first lay President, Vice President and member of the National Executive Committee and as the Southwestern Regional Director, as well as an active member of the editorial board of the *Review of Social Economy* and a founding Editor of the *Forum for Social Economics*. In 1993, he received the Association’s highest honor, THE THOMAS DEVINE AWARD, presented occasionally to an Association member “who over a lifetime, has made important and significant contributions to social economics and progress toward the realization of a social economy.”

He was an active research scholar publishing many papers and book reviews and presented many professional papers at the annual meetings of heterodox economics associations. These included the Association for Evolutionary Economics which he helped found and which established the *Journal of Economic Issues*, and the Southwestern Economics Association of which he served as President, and later was given its Distinguished Service Award, the first to be so honored. He was also a founding member of The Association for Institutional Thought (AFIT).

Professor Cochran also had a long and close association with the Institute of International and Public Affairs at St. Mary's University in San Antonio, Texas. Over a period of two decades, he gave annual lectures to the students, faculty and general public. This series of lectures was developed around the central theme of stressing the importance of reestablishing social/ethical/normative views in economic theory and analysis. The Institute recognized this contribution with a special "Appreciation Award for Outstanding Contributions and Scholarly Performances." His paper presented at the ceremony, "Economics as a Moral Science" was later published as the featured article in the *Review of Social Economics* (and is included in this publication).

His career included serving as Visiting Professor at the University of Newcastle, New South Wales Australia, Bishop College of Dallas and University of Oklahoma. He served as a Visiting Research Scholar at the London School of Economics. At the University of North Texas, he was Director of a "Summer Institute for High School Teachers of Economics," (founded by the National Science Foundation) from 1964–1972.

Cochran mentored many young economists, reading and critiquing papers, and helping them get published. Tributes from several of these follow.

Mona S. Hersh-Cochran
Professor Emerita
Texas Woman's University
Denton, Texas

Reflections from a Student

I was an extremely fortunate undergraduate student. One day, early in my senior year at the University of North Texas, I worked up the courage to walk into the office of the Department of Economics and ask the receptionist if there might be a job for me there, perhaps making copies or running errands. I had no car and walking to my two part-time jobs off campus left me little time to keep up with my studies. I was lucky indeed because Professor Kendall P. Cochran just happened to be standing next to the front desk when I made my bold request. Within the space of a few heartbeats, he changed the course of my life by offering me a coveted position as his teaching/research assistant.

Because of Professor Cochran's encouraging support, I chose to pursue a doctoral degree and currently enjoy teaching economics to a new generation. I was also very fortunate to be among the last students privileged to enroll in *History of Economic Thought* taught by Professor Cochran before he retired. Professor Cochran presented the evolution of economic ideas in an inspiring and thought-provoking manner, using the Socratic method to draw in every student and challenge each to decide whether it was coincidence that Adam Smith published his famous work in 1776, a symbolic year of birth for the country that put Smith's ideas into practice. There was a special twinkle in Professor Cochran's eye when he presented the ideas of institutional economics, and I later discovered that he himself was a highly-respected institutional thinker.

Today, I am honored to be part of this effort to share Professor Cochran's work with a modern audience. His writings are so relevant now, both to economists and non-economists. Professor Cochran's most important article is called *Economics as a Moral Science*. Many of his other writings offer reasons why economics should be a moral science, implying that mainstream economists should focus their research efforts on questions that matter to society. Sadly, many of the social problems Professor Cochran observed—poverty, income inequality, homelessness, hunger, education, health care, and the environment—remain the social issues of today.

This collection of essays written by Professor Cochran should inspire students of economics, writers, and policymakers who are looking for the purpose of their hard work, beyond a sense of intellectual accomplishment. The institutionalists offer a different path to knowledge and understanding, and Professor Cochran stands out in this group because, unlike Thorstein Veblen, he always believed in the power of government action to improve lives. “Greed” and “crony capitalism” are institutions that have evolved because our legal and political climate does not attempt to bar politicians and business leaders from trading in favors and influence. Professor Cochran saw this culture, as it formed during past decades, and wrote about the need for change. Readers will discover in this volume arguments and rationales for action that have only become more significant with the passage of time.

Our democratic government is an institution that was created by the founding fathers specifically to serve as an effective and flexible check on the power of concentrated wealth. Today, political institutions are suffering a crisis of confidence due to political gridlock, but this problem should only compel economists to speak up, not to defend the status quo—but to defend the powerless. Professor Cochran’s work inspires economists to provide the moral justification for their recommendations, and to help everyone understand the potential for government policy to solve society’s problems.

Susan McHargue Dadres
Senior Lecturer
University of North Texas
Denton, Texas

A TRIBUTE TO KENDALL P. COCHRAN 1924–2007

Reprinted from the *Forum for Social Economics*,
vol. 36(1), November 2007, page A5.

On November 30, 2007, Ken passed away peacefully at his home in Dallas with his wife Mona at his side. Ken was 83. He was born in Newton, Kansas, on October 12, 1924. He was very active in heterodox economics associations, being an original founder of the Association for Evolutionary Economics and of the Association for Institutional Thought. He was elected President of the Association for Social Economics. He also received the Thomas Devine Award in Social Economics. He helped Ludwig Mai of St. Mary's University in San Antonio begin publishing *The Forum for Social Economics* and later served as its editor. He also served on the Editorial Board of the *Review of Social Economy*. Ken studied with Clarence Ayres at the University of Texas. He earned his Ph.D. from Ohio State University in 1955. After two years at Ohio he moved to the University of North Texas where he taught from 1957 to 1988 and received numerous teaching awards, all well-deserved.

In his dissertation he showed that democratic economic planning was a central element in institutional economics. His Presidential Address to the Association for Social Economics was entitled "Economics as a Moral Science." Ken never lost his faith in the spirit of FDR's New Dealism. He worked quietly to maximize his effectiveness. That was his way—fierce attachment to a moral and ethical vision combined with an ability to persuade softly. The soft persuasion was due to his inveterate kindness. He was a genuinely nice man. He introduced me and other young economists (Ron Stanfield) to many people who could help us and urged them (unknown to me) to do so. He spent countless hours reading and critiquing my early papers, encouraging and supporting me and others like me at every turn.

Ken once told me that Gross Domestic Product, Net Economic Welfare, and the Unemployment Rate were all important, but they needed a human and personal dimension: visit the poorer quarters of the country yourself and look at the faces of the babies and their mothers. Are the babies happy and healthy, gurgling and rambunctious? Or, are the babies silent and listless? Their mothers drawn and tired? Do they look hungry? Only after you look, will you really know how to rank the economy that produced them.

Maybe even now someone is producing "The Cochran Index." Rest in Peace Ken. Your light shines on.

William M. Dugger
Tulsa, Oklahoma
December 9, 2007

PART 1

ECONOMICS: THE MORAL SCIENCE

Kendall Cochran's lasting professional legacy is his deeply held conviction that economics began as a moral science and must return to being a moral science. This volume begins with Cochran's most important publication, *Economics as a Moral Science*. The papers reprinted in the first section call for economists to turn their attention and expertise to solve the critical and pressing issues of the day.

Cochran believes that Adam Smith attempted to establish a legacy of normative analysis, meaning that the role of the economist is to offer recommendations of how to solve problems and improve outcomes. Unfortunately, economic theory began to focus on positive analysis as a result of David Ricardo's goal of finding natural economic laws.

When economists disagree about a normative conclusion, such as the need for government to ensure that everyone has access to health insurance, it becomes necessary to make *moral* arguments and the debate cannot easily be settled by appealing to the facts. When economists disagree about a positive conclusion, such as whether there are 30 million uninsured or 40 million uninsured, it is not necessary to take a moral stand and the debate can instantly be settled as soon as the facts are known. Modern economists may be more comfortable focusing on facts and figures, leaving moral issues to religious scholars or ethicists, but Cochran's writings should be viewed as a demand that modern economists join in all of the debates that matter to modern society, including those that require moral judgments.

ECONOMICS AS A MORAL SCIENCE

Review of Social Economy, vol. XXXII(2)
(October 1974), pp. 186–195

COMMENTARY BY DAVID MOLINA

I recall fondly my long discussions with Kendall Cochran about the differences between institutional and neoclassical economics. His arguments generally gravitated to his work entitled *Economics as a Moral Science*, which remains the quintessential expression of his argument against moral-free based neoclassical economics and is his most cited article. Nearly thirty years after its publication, Carroll and Ronald (2003) argue that, along with the works of others (Boulding 1969; O'Boyle 1978; Lutz and Lux 1979; Etzioni 1988), Cochran's paper is an important contribution to the so-called social capital. This seminal work by Cochran provides a cogent argument for why economics should not be a moral-free but instead should be a moral-based science. In order to make his argument, Cochran used three aspects of economics that lie at the heart of many questions. The three are:

1. public versus private claims on the productive capacity of the economy,
2. the setting of prices;
3. the distribution of income.

The first of these three examples was clearly the one he considered the most important, for as he wrote, "… the public versus private question is a crucial moral issue facing economists." Adam Smith and Jeremy Bentham postulated that society was the sum of individual interests, so the economic system exists only to satisfy the wants and needs of individuals. Cochran takes the position that society is not an abstraction, but instead is an "ongoing, unfolding, evolutionary, sequential organism that has a life process of its own." He points out that individuals such as Thorstein Veblen, John R. Commons, and John Kenneth Galbraith were setting forth this approach as an alternative to the neoclassical paradigm.

It is interesting that Cochran views the great contribution of Smith's work to be the clear dichotomy faced by economic science: the normative versus the positive perspective. This observation is of interest because nearly a quarter of a century after Cochran's paper was published, an experimental economist, Vernon Smith (1998), argues that taking Adam Smith in the totality of his work leads one to the conclusion that there is an important distinction between impersonal exchange (a positive approach) and personal exchange (a more normative or social approach). Vernon Smith showed that the strict neoclassical approach failed to predict transaction exchanges in experiments, but when one took the social view the results of the experiments had a greater success ratio. While one can debate if Cochran foresaw such a holistic approach to Smith's work, his recognition of the overall emphasis on positive versus normative analysis suggested by Adam Smith is one that Vernon Smith could have relied on when making his assertions.

The next example presented by Cochran is the setting of prices. He argues that at times, for the benefit of society, prices arrived at through the market mechanism must be altered and he mentions the price and wage controls set by President Nixon. Though they remain controversial, both at the state and federal level, price controls and tax incentives to purchase certain items—in particular green items—have been ample during the past few decades.

The final example that Cochran utilizes to discuss the importance of moral-based economic policies is income distribution. Here, it is sad to state that the situation he envisioned as needing our attention to improve has not only persisted but it is now even more severe. For instance, a standard measurement of income distribution referred to as the Gini coefficient[1] has increased by nearly 19% from 0.395 to 0.469. In addition, the top 5% of income population controls

[1] Where 1 is total inequality and 0 is a perfectly equal income distribution.

22.3% of the country's income today compared to 16.5% back in 1974 (US Census data).More dramatically, the top 1% controls over 35% of the wealth of the country as compared to 20% back in 1974, and one has to go back to the 1920's to find higher levels of control by the 1% (Wolf 2007, 2012).The above data is a far cry from the conclusion Cochran reached in this article, that there "… is no economic reason for any citizen of the United States today to be poor."

Perhaps no policy best exemplifies the impact of a moral-free economic approach as the tax policy that created carried interest.[2] In a sense, the income earned by hedge-fund managers is treated as capital gains instead of ordinary income as would be in the case for a lawyer, a doctor, or even the staff of the hedge fund who are likely to be the ones advising the company and yet their income is considered wages. I have little doubt; Professor Cochran would be utilizing this tax policy as the quintessential example of why we need economic policies that are developed through a moral-based economic science.

References

Boulding, K. E. "Economics as a Moral Science." *American Economic Review* 59 (1969): 1–12.

Carroll, Michael C. and James Ronald. "Social Capital, Karl Polanyi, and American Social and Institutional Economics." *Journal of Economic Issues*, 37(2) (2003): 397–404.

Etzioni, A. The *Moral Dimension: Toward a New Economics*. New York: Free Press, 1988.

Lutz, M. A., and K. Lux. *The Challenge of Humanistic Economics*. Menlo Park, Calif.: Benjamin/Cummings, 1979.

O'Boyle, E. J. "On Caring and the Restoration of Order." *Review of Social Economy*, 36 (1978): 197-208.

Smith, Vernon. "The Two Faces of Adam Smith." *Southern Economic Journal*, 65(1) (1998): 1-19.

Wolff, E. N. "Recent trends in household wealth in the United States: Rising debt and the middle-class squeeze." Working

[2]See http://www.taxpolicycenter.org/briefing-book/key-elements/business/carried-interest.cfm.

Paper No. 502. Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College. 2007.

———. “The Asset Price Melt Down and the Wealth of the Middle Class.” New York: New York University. 2012.

ECONOMICS AS A MORAL SCIENCE

Economics is, and always has been, essentially a moral science—whatever the protestations to the contrary by some of its practitioners. There are those who claim that economics, as a science, is concerned only with the implications of the fact of relative scarcity. Lionel Robbins and Milton Friedman are obvious examples of this point of view. And at least since the time of Jean Baptiste Say (1803), there has been a steady stream of economists who have insisted that their task is to remain unconcerned with the social issues of the day, striving always to keep the discipline "scientific"—that is, free from moral judgment or moral concern.

But what this position has in fact meant is a historic concern by the economist for that status quo and the development of a scientific expertise which has defended and explained the status quo. For this is largely what marketplace economics has always been: an attempt to explain the mysteries and wonders and vagaries of the market as well as to divulge the blessings which the market bestows upon all of its followers.

This is the legacy bequeathed by Say who argued that the economist must remain an "impartial spectator." (Gide and Rist, p. 123) If he is to be purely scientific, he must remain theoretical and descriptive and in no case should the economist give advice to the public. This point of view was the logical outgrowth of the dictates of Jeremy Bentham, the eighteenth century social psychologist, who had such a tremendous impact on laying the basic psychological groundwork for the emerging science of Economics. (Bentham, 1843; Mitchell)

The core idea of this viewpoint posits that what is good for society is simply what is good for the individual, as measured by the market, which is merely an extension of natural law. Individuals as individuals are all that matter. They are primary; society and the economy are secondary or derivative. And the task of the economist is to explain that secondary or derivative mechanism.

But what happens if the economy is a product of institutional, historical, technological, social forces and not the product of natural forces or the unseen hand of divine origin? Then it is my contention that the economist has a moral responsibility to help society see where it might go and understand what its alternatives are.

In summary, the one position, the traditional position, leads to an acceptance, perhaps even a defense, of the status quo. The other leads to an argument for social change and for political and institutional reform.

This is the moral dilemma facing economists today, and it truly is a dilemma. It is the direction in which John Kenneth Galbraith, for example, is rapidly moving. (See Galbraith, 1973 especially, but also 1958 and 1971)And it is for this very reason that the "traditional" economists have rejected the Galbraithian position and, in fact, circulated a petition to keep him from being elected president of the AEA. He was, in short, meddling with the wonders of the market and trying to inflict his point of view on society. And correctly so. For it is my contention that if Contemporary Economics is to succeed as a meaningful science—that is, meaningful in terms of the pressing social (political) economic issues of the day—then the economist must come out of his ivory tower and bring to play his expertise, his specialized knowledge, to make the system work better. And what this means explicitly is that the economist must abandon the traditional position that he should not make moral or value judgments; instead, he should not only make them explicitly, but he should actively urge their implementation.

In order to illustrate the moral assumptions involved, let us briefly examine three specific cases: (1) public versus private claims on the productive capacity of the economy; (2) the setting of prices; (3) the distribution of income.

As a morally involved Economist, I would argue that society ought to have first choice about what is to be produced. That is to say, social forces ought to dictate first what is to be produced and who is to get it, and then the private sector of the market should distribute what is left.

This position is, of course, contrary to the long tradition of conservative economists dating back at least to the time of Sir William Petty, Thomas Mun, and the other mercantilists who argued that public employment of means and resources should be provided only when the private sector did not do so. (6) Any student of history will know that even this position was readily abandoned during the nineteenth and early twentieth centuries. But the traditional position has been that the private investment sector and the private consumption sector should have first choice of the use of men, materials, resources, capital goods, savings, and so forth. Then, if there were not enough private demand from both consumers and investors, the government, under an extenuating or emergency circumstance, could build dams or bridges or hospitals. Since such proposals date back at least to the time of Elizabeth the First, it is not particularly refreshing to hear current reform advocates push for the responsibility of government as “an employer of last resort.”

This, the public versus private question is, I believe, a crucial moral issue facing economists. And the issue is a crucial one, for one must either accept or reject the basic moral philosophy of Adam Smith and Jeremy Bentham regarding the relationship of the individual to society—that is, the position that the wants of individuals are primary and those of society are secondary or derivative. This issue is so basic, it would be helpful to go back and take a rather careful look at economics in its philosophic beginnings. Now there really was no question on this matter for Smith and Bentham; the situation was inescapably clear to them. Society was no more, and no less, than the sum of the interests of the individual consumer, investor, workman, employer. In short, there was no society, no ongoing social organism with a life process of its own. There were only individuals acting in their own self-interest. From this point of view, the economic system exists only to satisfy the individual wants and needs of the consumer or investor; therefore, public wants or needs must take a second choice or whatever is left over.

This is the basic moral justification on which economics, and its rationalization of the market as the final arbiter of all values, must stand or fall. Society, in this point of view, is only a fiction or an abstraction, for it is only the sum of the individual self interests. And if one accepts that morality, he, in turn, accepts traditional economics and its self-justification that its only function is to explain the mystery of price and the market mechanism. And he further automatically accepts the position that, since individual self-interest is supreme, then any governmental activity is a restraint on individual freedom and is therefore pernicious and evil, by definition.

It would be beneficial to examine this concept a bit more carefully in its historical origins. This is of course simply the eighteenth century view of man. Since in nature all men are created equal and since individual man is naturally greedy and tends to "truck, barter and exchange," if he is freed from governmental restraints to follow his basic instincts, then a free competitive market would naturally or automatically emerge if the capitalists could make a profit only by following the dictates of the individual consumer. Scarce resources would thus be allocated to satisfy the more important private wants and, owing to the inexorable forces of competition, at the lowest possible cost. From this premise about the nature of man, the only possible restriction to the realization of the equality would be the artificial restraint of government. Thus, the *laissez faire* system of government came to be important. And what did *laissez faire* mean to Adam Smith and other eighteenth century moral philosophers? It was not, as many have since contended, an end itself during the nineteenth century, but it most surely was not such for the founding fathers. What, for example, did Smith envisage? In one of the more beautiful sentences in the entire work, he said, "All systems either of preference or restraint having been thus removed, the obvious and simple system of natural liberty establishes itself of its own accord. Every man … is left perfectly free to pursue his own interest in his own way ..." (Smith, p. 651) The obvious and simple system of natural liberty could establish itself of its own accord. If only all governmental systems of preference or restraint were removed, then, and only then, each individual would be equal and thus free to pursue his own individual interest. This is really what *The Wealth of Nations* was all about, and it is what the marketplace and marketplace economics came to accept.

What Smith and Bentham and all Classical and Neoclassical economists since have assumed is simply that individuals are *a priori* equal. Nature defined it that way. And only an arbitrary sovereign or pernicious government can upset that basic and natural equality. Thus, if all systems of preference or restraint are removed, then there will emerge an economic arena in which all individuals will be free to pursue their own self-interest, and that is what is best for society. This is critical, for from this point of view, that is the only definition of the social good. Society is an abstraction, a nonentity, a fiction perhaps; for only individuals as individuals really matter, and the sum of their best interests is the definition of what is good for society—the greatest good for the greatest number.

Now what this meant to the eighteenth century philosopher is clear. That is, the absence of legal restraint led to political liberty which, in turn, led to economic freedom. In other words, political liberty of *laissez faire* was the means to economic freedom, the freedom to pursue one's own self-interest in the marketplace. And since the market was the final arbiter of all just values, then the market acting in its own wisdom would be the final arbiter of justice, whether justice concerns wages, prices, interest rates, or the means by which "scarce resources are to be allocated among alternative uses."

Smith's monumental work demonstrated two important facets of the science of economics: the normative and the positive. Positive economics explains what is, whereas normative economics tells what ought to be or what one should want. This is primarily what Smith's work was all about. He was saying that society should want resources allocated according to the preferences of individual consumers rather than according to the dictates of some far-distant legislator. Further, a laissez-faire, free-market mechanism would actually work; it would in fact make the best possible decisions regarding the allocation of resources, assuming, of course, the basic equality of all participants or the butcher-brewer-baker syndrome that Smith relied on so heavily.

Smith's normative economics, what society ought to want, was a nearly instantaneous success. Mercantilism was quickly dismantled, and the era of *laissez faire* capitalism dawned. As the science of economics developed in the nineteenth century, it became essentially a positive science, explaining by logical analysis how a free market allocates resources and distributes income, and thus independently determines what to produce as well as who gets what and how much. In the hands of the nineteenth century economists, this body of thought evolved into a beautiful, orderly systematic set of generalizations and abstractions. By the end of the nineteenth century, it became, in the hands of Alfred Marshall, a thing of real beauty. (Marshall, 1920) By careful selection of assumptions, by the use of orderly logic and a smattering of mathematics, Marshall wove together the disparate threads of Classical and Austrian thought into the fabric of Neoclassical short- and long-run equilibrium analysis under the aegis of *laissez faire*.

Meanwhile, this assumption of individual primacy came to be firmly locked into the entire political, social, and economic morality. It was the warp upon which the threads of political and social ideology were woven during the nineteenth century, and it then became the basic position which accepted *laissez faire* as an end in itself. (Girvetz, 1950)

Again it is likely that the perceptive student of history will point out that *laissez faire* was never really adopted, that there always was some governmental regulation or interference. That of course is true, but what kind of governmental regulation was there? Basically, there was regulation in order to make the market work better. For example, there was anti-trust legislation to make it more competitive, pure food and drug laws and grade labeling to make the consumer better informed, public utility laws to do by commissions what a natural monopoly could not do, labor legislation to give the individual worker a higher degree of equality with his corporate employer, banking legislation to protect the individual depositor from the machinations of unscrupulous bankers, and more recently, monetary and fiscal policies to achieve (hopefully) a stable high-level equilibrium.

But outside of this mainstream, there was developing an alternate view of economics as a moral science. This was the contribution of the Institutional Economists: Thorstein Veblen, John R. Commons, Wesley C. Mitchell, Clarence Ayres, John Kenneth Galbraith, to mention the better-known ones. As a starting point, they assume that there is such a thing as society—an ongoing, unfolding, evolutionary, sequential organism that has a life process of its own—and that indeed individuals are products of that evolutionary social life process, not the other way around. Or, as John R. Commons summarized, “Collective Action is the liberation expansion of individual action.” (Commons, 1951, p. 35, pp. 135ff.; 1934, p. 842) If this is accepted, then this social organism has a stake in its own survival, its own growth and development. Further, the growth and development of society is the means, the *sine qua non*, to the growth and development of individuals within that society. Thus, dams and schools and flood controls and traffic lights and mass health insurance are not infringements upon individual freedom because taxes are necessary to support them, but they are the first and necessary claim on the output of the economic mechanisms that individuals can survive and grow and flourish as a part and product of that ongoing social process. This was the main contribution by the Institutionalists: To turn economics from a relatively passive, armchair discipline to an active, participating endeavor to improve, to correct, to ameliorate current economic conditions. (Commons, 1951, p. 180) Knowledge should thus be used as a tool for social and economic criticism, for social and economic reform. Rex Tugwell, who became famous as one of President Franklin Roosevelt’s braintrusters, once defined theory as “trained intelligences that grip with the problems that are the crucial ones of modern life.” Thus when one “theorizes, he is thinking about ways in which institutions can be made to work better.” (Tugwell, pp. 417-420)

Some of these economists founded The National Bureau of Economic Research and launched countless case studies, investigations, and inquiries, all from the premise that understanding a problem in its setting necessarily precedes improvement or correction. And improvement, correction, control were the identifying badge of this school.

As Wesley Mitchell, one of the founders of the National Bureau, once said,

> Few of us have been willing to trust what Adam Smith regarded as “natural” forces. Instead, we have cherished ambitious designs of harnessing social forces much as we have harnessed steam and electricity. (Mitchell, p. 95)

But to return to the second case to be examined: traditional economic theory and the setting of prices in the market. If it is a butcher-brewer-baker setting, as Adam Smith envisaged, and Alfred Marshall assumed, and one leaves those decisions to the individual entrepreneur, capitalist, worker, then the result will be the best possible set of answers regarding prices and wages and the allocation of scarce resources, given those critically important assumptions about the *a priori* equality of man. If, however, General Motors and the United Auto Workers have mutual and compatible interests which are contrary to those of society and if society has a prior claim on the uses to which resources shall be put, then society has the right to sit in on and have a final—not an equal but a final—say on wages and prices. If this position is accepted, the consequences are obvious. Wage and price controls must become an acceptable and integral part of the economic mechanism. President Richard Nixon made a tentative start in this direction in his first wage-price control board but he abandoned it as soon as possible because he felt he must return to the free private enterprise market. But that is returning to the *a priori* moral assumption that the only measure of social welfare is the pursuit of individual self-interest.

Let us briefly examine one more example: the distribution of income claims to the active and productive participants. While it is true that John Stuart Mill, that sometime socialist, did say that society could divide up the economic pie by any standard it chose to use, (14) the latter marginal and Neoclassical economists rejected this revolutionary heresy. Thus J. B. Clark felt that

> to each agent a distinguishable share in production, and to each a corresponding reward—such is the natural law of distribution. This thesis we have to prove….(Clark, p. 3)

Neoclassical economists quickly accepted this thesis, since the question of justice was thus easily resolved: each contributing agent was paid exactly what he was worth, which was, of course, what he produced at the margin. There, in one fell swoop, Marx's charge of exploitation was dismissed because value was not, after all, the amount of "socially necessary labor time," but the ability to satisfy individual wants. Thus there was no exploitation. For in the make-believe world of economics, it was proved that each factor got just what he deserved: what he contributed to the total, with no moral or sentiment involved.

And so, Neoclassical economists redefine the maximum welfare of society as being quite simply the maximization of individual wants and individual self-interest, with no glancing thought being directed to who gets how much, since each was getting what it “deserved.”

But what if one accepts the position that society itself as manifested in science, technology, and accumulated know-how, has a claim as a productive agent? Then by any standard of measurement, this clearly is by far the largest claim and society does then have a legitimate *a priori* prerogative as to how this production is to be used. In other words, who is to participate in the distribution of society’s productive capacity? It is not only those who have marketable skills and receive payments from the market, but society itself has an *a priori* responsibility to allocate its share to ensure its own growth and development.

This is a question of critical concern for the economist today because of the wide disparity in the distribution of income and wealth between those at the top and those at the bottom and the inordinate economic and political power that results from that disparity. That is, there is power not only to direct the allocation of resource to satisfy the personal whims of the individuals at the top, but also to control the press, the politicians, and the pulpit. It is the turnip-patch economics of early classical economists, which assumed that the overwhelming and dominating facts of economic life were eternal, unrelenting scarcity and the basic economic equality of individuals. But what happens if those assumptions are abandoned?

The question then is to determine which one of the alternatives available to society should be chosen. One might simply let the future happen—just let it slide by. But this means that those individuals at the bottom of the economic pile will remain inescapably trapped there. This is what recent findings by the Council of Economic Advisors have once again demonstrated: that the relative share of total national income going to those at the top and those at the bottom has changed precious little in the last three to four decades. This is primarily caused by existing tax structures. The upper-income groups have innumerable tax loopholes, while the increasingly regressive social security taxes take a proportionately bigger bite from those at the bottom. It should also be noted that federal subsidies are not confined to those on welfare: of all families with incomes of more than \$25,000, 22% received some form of federal benefits. (*Time*, February 11, 1974) And merely to let that disparity between the very rich and the very poor continue is morally irresponsible.

In sum, I believe that man, as a social being, has a degree of control over his future destiny. Today and yesterday are *irretrievably gone*. But the future can be of his own making. If one were to take a purposeful, a moral look at the future, and ask himself, as his generation "What do we want to do with it?" We would find that meaningful alternatives were available. But only if we make a clearly defined choice regarding the moral assumption we choose to use. And *that* is the moral imperative for members of the economics profession. The only alternative is one of *laissez faire* indifference. And the consequence of that moral position, for *laissez faire* indifference is equally a moral position, will be that meaningful alternatives are not made available and known to society.

For example, if we had the will, and the commitment, the productive potential is available to all meaningful economic upgrading of the poor. In past decades or generations, when one suggested that the total income should be redistributed from those at the top to those at the bottom, the defenders of the status quo were careful to point out that this could do no good, that there simply was not enough at the top to make a meaningful difference to those at the bottom. All this would do, as Ricardians have long pointed out, would be to impoverish everybody. This was true in David Ricardo's day, for there was so very little to go around. An economy of scarcity meant simply that the vast majority of people had to starve, that only a few could, in fact, live in moderate affluence at the top of the hill. But that is no longer even remotely true. There is no economic reason for any citizen of the United States today to be poor. One could, for example, double the income of the bottom 20% of the economic pile by cutting the top 20% by only a tenth. That is, the top fifth would have to give up but one-tenth of their income in order to double the income of the bottom fifth. Or, one could raise the bottom fifth to a minimum family income of $3900 by cutting the income of the top fifth by a mere 5%. This means that if the top fifth reduced their share of the total economic pie from 42% to about 40%, this would have a meaningful, measurable impact on those at the bottom of the economic pile.

Of equal concern is the enormous political, socioeconomic power of the wealthy, omnipotent corporate conglomerates and the chosen few who control them. The recent revelations of the close economic and political ties between the milk producers and the Department of Agriculture or the dealings between I.T.T. and the Justice Department are sordid examples. It was individuals. And that kind of power, held in carte blanche, virtually untouchable by any kind of countervailing power, is the kind of moral-economic issue of affluence that should frighten economists who, instead, concentrate on explaining long-run equilibrium in a perfectly competitive market. And that, I stress, is as amorally irresponsible as the game I.T.T. and the Justice Department played.

REFERENCES

Ayres, Clarence E. The Theory of Economic Progress (Chapel Hill, 1944); Toward A Reasonable Society (Austin, 1971).

Bentham, Jeremy. An Introduction to the Principles of Morals and Legislation, in the Works of Jeremy Bentham (Edinburg, 1843).

Breit, William and Ransom, Roger L. The Academic Scribblers (New York, 1971).

Clark, J. B. The Distribution of Wealth (New York, 1899).

Commons, John R. The Economics of Collective Action (New York, 1951); Institutional Economics, 1934 (Madison, 1959).

Friedman, Milton. Essays in Positive Economics (Chicago, 1953); Capitalism and Freedom (Chicago, 1962).

Galbraith, John K. Economics and the Public Purpose (Boston, 1973); The Affluent Society (Boston , 1958); The New Industrial State (Boston, 1971).

Gide, Charles and Rist, Charles. A History of Economic Doctrines (New York, 1948).

Girvetz, Harry K. From Wealth to Welfare (Stanford, 1950).
Grampp, William D. "The Liberal Element in English Mercantilism," reprinted in Spengler and Allen (Eds.), Essays in Economic Thought (Chicago, 1960).
Gruchy, Allan G. Modern Economic Thought (New York, 1973).
Marshall, Alfred. Principles of Economics, 1890 to Eighth Edition, 1920 (New York, 1949).
Mill, John S. Principles of Political Economy, 1848 (London, 1923).
Mitchell, Wesley C. "Bentham's Felicific Calculus," reprinted in Mitchell, The Backward Art of Spending Money (New York, 1950).
Mun, Thomas. England's Treasure by Forraign Trade (London, 1664).
Petty, William. Treatise of Taxes and Contributions, 1662, and the Political Anatomy of Ireland, 1672, in The Economic Writings of Sir William Petty (Cambridge, 1899).
Robbins, Lionel. An Essay on the Nature and Significance of Economic Science (London, 1935).
Say, Jean B. A Treatise on Political Economy, translated by C. R. Prinsep (Boston, 1824).
Smith, Adam. An Inquiry Into the Nature and Causes of the Wealth of Nations, 1776, Modern Library Edition (New York, 1937).
Tugwell, R. G. "Experimental Economics," in The Trend of Economics (New York, 1924).
Veblen, Thorstein. The Place of Science in Modern Civilization and Other Essays (New York, 1930).

ETHICS, VALUES, AND THE AFFLUENT ECONOMY

Paper presented at Lake Sharon Conference dedicated to an Exploration of the Changing Role of Education, November 28, 1967

COMMENTARY BY SUSAN DADRES

In this article, Cochran explores the values presented in economics classrooms and attempts to determine whether they are different from those of the previous generation. In true institutionalist manner, Cochran proclaims the problems faced by the current generation are indeed different, as different as comparing a model A roadster to a supersonic jet! His analogy applies perfectly to the notion of freedom; the freedom to travel afforded by the roadster was amazing in the past, but cannot be compared to the ability to travel across the entire country in mere hours. To set up the discussion, Cochran continues the analogy and explains that new rules are needed in an era of high traffic air travel, just as the new economy requires changing values, ethics, and morals.

During the time when he was growing up, Cochran explains that politicians were promising "less government in business and more business in government." The free market mechanism was previously viewed as sufficient for allocating resources and deciding the fundamental questions of what, how, and for whom. However, this paper provides examples to illustrate the need for government intervention, regulation, and support. Cochran emphasizes the need for government support of education and for intervention to stabilize the economy following the ideas of John Maynard Keynes.

Cochran references George Orwell's book, *1984,* and the use of war to eliminate excess production. He argues for a new and equitable method of answering the question "for whom" because in the modern economy, it is no longer possible to trace productivity from the individual worker to the final product. He concludes that the current generation must focus on deciding their priorities and recognizing the opportunity costs involved. Today, workers in retail stores and fast food restaurants cannot rise above poverty income levels even if they labor 40 hours each week, and the demands for an increase in the minimum wage are growing. Big box retail stores offer low prices to consumers, but their full-time employees must rely on food stamps just to get by.

The current generation is poised to make crucial decisions about economic equity, and this paper by Cochran provides the insights needed to make these decisions. A recent article in the *New York Times* summarized a report about the ethical conduct of Wall Street insiders, and the results are very disappointing." According to a controversial study called 'Economics Education and Greed' that was published in 2011 by professors at Harvard and Northwestern, an education in economics surprisingly may be making the problem worse." (NYT, page B2) This was one of Cochran's fears and the strongest argument for a serious reassessment of how economists incorporate moral issues into their analysis.

References

Orwell, George. *1984*. New York: Signet Classic, 1950.
New York Times, July 16, 2013, pages B1 and B2.

ETHICS, VALUES, AND THE AFFLUENT ECONOMY

I first want to thank you for inviting me to participate in this conference dedicated to an exploration of the changing role of education today—a most important challenge, for the college campus is in the midst of a seething rebellion. I am not at all confident that I know what it is all about. But I am absolutely confident that we—you, the campus minister, and I, the college professor—must come to some understanding of it if it is not to spillover into a truly disruptive foray against the very structure of society itself.

My education on this point remains unresolved. I don't really understand what the rebellion is all about. But I can make some guesses—and my task is, I gather, to share these with you—specifically, is there anything going on in the economics classroom, or in the economy itself, that might contribute to this unrest. What is the student exposed to that might instill a different set of values than those which you and I were nurtured on?

Let me first, then, focus briefly on the main pattern of ideas and concepts in economics that are current today. Or, more precisely, the main pattern as I, a professor of economics, see it—which is, very simply, that the issues and problems that today's generation will face tomorrow, are as different from those you and I grew up facing, as the supersonic jet differs from a model A roadster.

The supersonic jet will free us for adventure, travel, social and economic intercourse, beyond the most vivid imagination of the model A syndrome. I mention the model A because it was my first car and it gave me a degree of movement and freedom and exhilaration totally unknown in previous experience. The giant metropolis of Wichita, Kansas, with its excitement and challenges was an effortless hour away. Not entirely effortless, of course, for I had to learn new behavior patterns and new codes which limited and defined that freedom. The license plates and the driver's license, speed limits, and no passing zones, adjusting the spark and shifting gears, etc., etc., all seemed to conspire against this newly acquired freedom. But that new freedom was won, for these new, strange, rules of the game were mastered, and in a short time I was king of the road and master of my own destiny.

But how very quaint, even nostalgic, that little roadster is today, when I can be in Houston in less than 45 minutes, or in Washington, D.C., in less than 3 hours, with a cocktail and a sumptuous meal en route. And this is only the beginning, for tomorrow I can be in Rome or Madrid or Tokyo in about the same time.

But these jets require an extremely complex set of rules if they are to arrive at their destination safely. And the FAA is vitally concerned about their inadequacy. The current rules concerning take off and landing, for example! are simply not adequate for these monsters. These rules will be changed, however. There is no doubt about that. But what of our social values, our ethical rules, that were nurtured and fostered under the aegis of the Model A? Can we really be as closely in touch with Rome or Tokyo or Moscow as Houston was to Dallas only yesterday? Not with yesterday's customs and attitudes; not with the same values and ethics. But I am digressing into your area of specialization.

These remarks were not intended as a digression, however. They were used merely to focus on what I believe is happening in my own field of specialization—economics. For this traditionally remote, aloof and arid subject—this most dismal of the sciences—is surely undergoing a deep seated revolution. And, in my opinion, this revolution will ultimately be one of the attitudes, values, mores—in short, ethics and morals. And the time span separating the model A from the jet, is roughly the same as that separating an older set of ideas in economics from those likely to emerge tomorrow.

Let me, then, go back to the 1920's as a first point of departure. I say, first, for in a few minutes, I want to return to the 18th century for another point of departure.

With the end of World War I came an insistent demand for a return to the traditional free enterprise system and the governmental policy of *laissez faire*. Harding, in the election of 1920, promised "restoration…serenity …healing;" he pleaded for a “return to normalcy." While "normalcy" meant many things to many people, there was one element upon which nearly all agreed: the withdrawal of government from the economic arena. Thus Harding argued for "less government in business and more business in government." Coolidge stated his position even more succinctly: “the business of America is business." The nation looked to Wall Street for its leadership, rather than to Washington.

But, what about the student taking economics today? This attitude toward government has been abandoned by nearly all of them; indeed, by nearly all segments of society. Government intervention, regulation or support, of various segments of the economy are today an established and an accepted fact of life. The student in the economics class learns the whys and wherefores of government regulation of railroads, farm price supports, social security, antitrust legislation, pure food and drug specifications, aid to science, research and education, seat belts in automobiles, and on and on. While such a list is not endless, it is indeed an impressive one, and it is surely no understatement to note that these have had a massive impact on our economic life. I do not want to debate the merits of any of these programs, for each of us will have a different set of criteria for evaluating their success or failure. But I do want to emphasize what I believe to be the thread of commonality among them. As widely disparate as they may appear to be on the surface, each is but society's attempt to redirect some specific segment of the private enterprise system, or what; we call the market mechanism, into directions where it would not have gone of its own accord.

Let me expand on that briefly. But first, make no mistake. The overwhelmingly vast majority of economic decisions are made by the market mechanism, with the government playing only the minimal role of referee. Thus, when I spend 40 cents to buy a package of Sail pipe tobacco, rather than a pack of cigarettes, or 4 cups of coffee, or one hamburger, the market mechanism responds accordingly and allocates resources and labor and capital to the satisfaction of my needs for this specific tobacco, not Sir Walter Raleigh.

This is the impersonal law of supply and demand, and we rely on it quite heavily, for the obvious reason that it works fairly well in most areas—and by and large we are satisfied with the results.

Thus—who gets to use up resources, labor and capital goods in the form of air-conditioned Cadillacs? Those who can pay for it. And we seem to be fairly well satisfied with this answer. At least we were yesterday. I am not so certain about tomorrow, but this is a point to which I will return later.

But there are exceptions today. Education is an obvious one. We could distribute this economic product through the market and only to those who could pay the full cost of production. But in order to attain some social goal, we decided to let society as a whole pay the costs and then distribute it at little or no cost to the ultimate consumer.

There are, of course, many other areas where we have been dissatisfied with what the market has done when left to itself. So, through some form of collective action we steered it toward different ends. And this is what these forms of intervention—farm price supports, aid to education, social security, anti-trust legislation, for example, have in common. There is nothing inherently good, or bad, in letting the market determine the price of a coke, or a bushel of wheat. But we decided the price of wheat should not be left to the free market. So we interfere.

On other occasions we decided that competitive markets would make fairer decisions than monopolistic ones, so we tried to force businesses to compete by a series of anti-trust laws.

And on another occasion, we concluded that there was too much competition in the buying and selling of labor, so we passed laws, such as the Wagner Act which gave the individual worker more power at the bargaining table—to make the market place less competitive—thus more equitable than it: otherwise would be. Later, we took some of that power away in the Taft-Hartley Act.

In short and in sum—the student of today no longer accepts the market place as mysterious or sacrosanct; he no longer views it as being the inexorable forces of god or of nature. It is but one of many social institutions which we can use to achieve a variety of social ends. God mayor may not be dead—that is a fundamental issue with which you of the clergy have to wrestle. But there is no doubt in my mind that *laissez faire* is dead as far as the college student of today is concerned.

A second major departure from *laissez faire* is in the specified intent of the government to alter the course of the business cycle. It is now generally accepted that we can alter economic fluctuations by the skillful and purposeful manipulation of spending, taxes and interest rates. The man in the street may not understand it in any great depth, but he confidently expects the government to step in and do something about recessions and depressions—perhaps even, inflation. The student fresh from an economics class will understand in some greater depth what causes these fluctuations, and, more specifically, what can be done to offset them. But the really important point is that he, today's student, would never again tolerate the sitting aside and doing nothing—as we did through the long, painful decade of the 1930's. And, I hasten to defend the inactivity of both presidents Hoover and Roosevelt; they had no idea what to do. But neither did the professional economists. According to their economic theories, a devastating depression was something that simply could not happen. The inexorable forces of the market would prevent it. So, the best advice the economist could offer was to do nothing—in short, *laissez faire*. President Hoover correctly translated this to the public as "prosperity is just around the corner."

But then an English economist, John Maynard Keynes, revolutionized economic thinking when, in 1936, he explained in a most difficult and esoteric book, how a depression is generated and what can be done to reverse it.

Ten years later, the Congress of the United States encompassed these theories in the Employment Act of 1946 and thus assumed responsibility for maintaining levels of employment, output and purchasing power. These were to be specifically sought after goals, not the chance result of an impersonal market mechanism.

Stemming directly from these theories and this legislation was the tax cut of 1964—designed specifically to stimulate a sagging economy. We currently are debating a proposed surtax—advocated not merely to finance increased government spending but more importantly, to relieve some of the pressures of a too-rapidly expanding economy.

No I am not prophesying that Congress will in fact pass this proposed tax increase. I personally think that it should; and I think the vast, vast, majority of my fellow economists share this view. I also suspect that a majority of the Congress privately agree, but are reluctant to get too far away from the thinking of their constituents, most of whom were educated in some previous era.

But whatever I think personally, these are some of the concepts and ideas to which students are being currently exposed, and to which, I believe, they generally subscribe. For these in the main, are the accepted ideas being explained, debated, and discussed in the classroom. But there are other, more revolutionary, ideas now emerging. Ideas which will come to dominate public discussion and private arguments in years yet to come. The guaranteed annual income, for example, is the topic for intercollegiate debate this year.

I am personally confident that some such programs will be adopted in the near future. And I think it is vitally important that we understand the main forces that are hurtling us in this direction; and even more importantly, the ethics and values that must be reshaped in the process. For this reshaping will be more sweeping, more revolutionary, than any which western society has experienced since the 18th century. To be quite specific: in my opinion, if in fact the age of affluence is to be realized, then a quite different set of rules or institutions or values will become mandatory.

The basic institutions of capitalism, the rules by which we play the game of economics, were forged and developed back in the 18th century at a time when virtually everyone lived at a bare subsistence level—locked, as it were, in the prison of scarcity. While applicable at that time, it is my contention that these concepts have little relevancy for the economy of tomorrow. Before turning back the pages of history as a prelude to looking into that economy of tomorrow, I want to emphasize one point: this interpretation is a personal one. It is how one economist reads current trends and issues. Not all economists would agree with it—but it is how I size up the past, present and the future—and, without the aid of a crystal ball.

The total output of that 18th century economy was pitifully small. The hard fact is that there was very little to divide up between or among the various participants. So, most got very little and a few, a very few, got quite a bit. That is to say, the rewards were practically unlimited for the very few who made it to the top. But most remained hungry, cold, and downtrodden at the bottom. And it had to be.

There was only one splendid house on the top of the hill, for the eternal fact of economic life was poverty. The specter of scarcity lay always on the land. And exploitation, injustice, degradation were the simple and unbending facts of life. Not only economically justifiable and defensible, they were absolute necessities. There simply was not enough to go around so long as society was limited by the diminishing returns of a barren, rocky, turnip patch. Society was locked in the prison of economic scarcity.

But we in the United States are no longer in that prison, for the door has been unlocked. While it is literally true that not everybody can live in a splendid house at the top of the hill, it is no longer necessary for anyone to be at the bottom. Scarcity is no longer an adequate explanation or rationalization for poverty.

These observations are of course not new. As early as the 1920's many a close observer of society and economics knew that individual want or poverty was no longer necessary. Herbert Hoover, you may recall, noted in 1928 that "the poorhouse is vanishing from among us." And, he was quite correct. These words were to haunt and taunt him in 1932—but it was a correct appraisal of the economic potential of 1928. But that potential was not soon to be realized for we had not yet found a way to consume all that we could produce. So, we simply shut down our factories, mines and mills for the next decade.

The source of this economic plenty is of course the scientific and technological revolution that has been going on since the beginning of time. As science and technology have progressed they have created new ideas and from these new ideas—from what we today call research and development—have come new and better ways of creating economic goods and services. And this has been going on since the beginning of time because man is a tinkerer, an inventor, a short-cut seeker, and an innovator. He is, in short, restless and dynamic and inquisitive. He is really only happy when he is doing something. This is the essential and important part of being human. A human being is not an "it," a quiescent, inert thing. Quite to the contrary, the being of human being means tinkering, exploring, inquiring, creating; a restless seeking after truth and beauty and understanding, the climbing of mountains, and crossing of oceans and plains, and orbiting in space.

Man has another important characteristic: he accumulates. He accumulates both things and ideas. And whether in economic theory, or in agronomy, or in steel technology, or in atomic energy, knowledge is a cumulative process. We learn by using what we know and in so doing we create new ways of doing other things—new ideas, new techniques, new skills. And that is the key to the economic prison. For it is knowledge alone that makes resources and labor and capital goods productive.

To illustrate: I would point to what has happened to the farmer's productivity. We have approximately the same number of people farming the land as in Thomas Jefferson's day, but we are embarrassed with our surpluses of food and fiber. The farmer of today has at his disposal a wealth of better tools, fertilizers, know-how. He of course didn't create these fertilizers and tractors and combines for they are a part of the storehouse of social knowledge.

And it is the cumulative, geometric, the explosive growth of knowledge that is revolutionizing our lives with data processing, transistors, jet air craft, miracle drugs, and miracle fibers.

This is truly the revolution with which we are so intimately concerned today: this scientific and technological explosion and the resulting economy of abundance.

My concern, as an economist, is by what set of rules are we to play this game of production and distribution—for this is what economics is all about. I haven't the foggiest notion of how a transistor works or why jet airplanes fly. I am, however, concerned with the rules of the game. In particular, will the old ones continue to work as efficiently as they did in the past?

The old rules are of course no longer with us in their original form. Adam Smith, the grandfather of all economists, would no more recognize the modern corporation as a form of private property than he would recognize a jet aircraft as a form of transportation. Both would be totally alien and totally incomprehensible.

In the grocery store economy of the latter 18th century, Smith dismissed the embryonic corporation as a useful device. Smith envisaged for the future what he knew to be familiar: a single man as owner-capitalist-entrepreneur. He took the risks, he did the innovating, he hired and fired. And he therefore reaped the rewards, if any.

For to the 18th and 19th century man it was all very clear: property meant power. The power, that is, to do certain things, the most important of which were tied directly or indirectly to making a living. That is, the owner of a factory or a mill or a farm dictated the terms under which others worked for him. This was one of his rights. He owned the tools and this gave him every right to say under what condition the tools could be used. And make no mistake—from the early 19th, well into the 20th century, he exercised that power as he, and he alone, saw fit. When Cornelius Vanderbilt fumed—"the public be damned"—he apologized to no man—not for the language, certainly not for the thought. George Baer expressed another side of this same coin when he wrote:

> The rights and interests of the laboring man, will be protected and cared for ... by the Christian men to whom God in His infinite wisdom has given the control of the property interests of the country.

Baer was President of the Reading Railway—and owned not a single railroad engine, car or cross tie. But he was president and he therefore could dictate how these things were to be used. God in His infinite wisdom had so decreed.

But this was in 1902. What about today? Where do property and power and management and labor and God in His infinite wisdom stand today?

Look for a minute at any large corporation—and it is to them that we do look for this economic abundance. What about General Motors? Or, the American Telephone and Telegraph Company? Or, the du Pont Company, or I.B.M.? Who or what is each of these giant industrial complexes? General Motors is buildings and machines and tools. And, it is efficiency and organization. And, it is imagination and foresight. And, it is research and development—and so on. But who owns it? Well, nobody really does. Not in any meaningful sense does anybody own it. General Motors has over a million stockholders—but they do not own the machines and tools. They own pieces of paper that entitle them to an income if a dividend is declared. This is their right—the right to share in the profits of General Motors. Even though they, as stockholders, have provided no new capital since the 1920's. That is, General Motors has not issued a single share of stock since the 1920's.

By what right, then, do they claim a share in the profits of General Motors? What have they done to deserve this income, hence, this claim on currently produced goods and services?

They are entitled to the income, because, they are entitled to it. Period. That is the way we play the game.

It is of course true that the stockholder may lose his investment, for the market price may be down when he sells. But it may be up, and that is why so many private individuals play the stock market. They know either may happen, but they have read the signs, have plotted charts, have consulted an oracle or seer, and believe that the price of their stock is going up. In which case they can sell and come out the Big Winner,—though they may be the Big Loser.

Now, I can only encourage this kind of buying and selling, for I also am an inveterate gambler. I personally prefer to play the horses. When I pick a winner in the third at Hialeah, I am tickled pink to collect $18 for each $2 that I "invested," but I do not seriously believe that I am performing a noble service for society and mankind.

As a matter of fact, if I were to hit it well, that is, really make a clean sweep, week after week at the race track, I would probably be investigated by the police, perhaps even deported. But, if I did equally well playing the stock market, I would be made a deacon in the church, and, if really successful, asked to give the commencement address at some minor university. But, I digress.

Let me return to the large successful corporation—the ones to whom we do look for this economic affluence. This corporation succeeded, in large part, because it separated the fact or ownership from the function of control. For it is the professional manager, not the owner, who has the power today—i.e., the power to decide what will be produced, how many funds will be allocated to research and development, who will use the tools and under what conditions.

But this latter function is also changing. For labor has insisted that it too should have some rights in this matter. At first, it was merely the right to argue about wages and hours. And this was a long and bitter struggle in the industrial sector of our economy. But this wasn't enough, for labor then insisted on arguing about working conditions, later fringe benefits, vacations, retirement programs, coffee breaks and a guaranteed annual income, etc. most recently, about the rate at which new tools will, or will not be introduced, and the conditions under which they can be introduced. It would, almost seem, would it not, that some of the more aggressive of their leaders are acting as if they owned the tools. And I ask again, who does own them?

There is another recent development that will confuse this issue even further. Profits have been quite good in recent years and some of the more successful corporations have been faced with the very serious problem of what to do with them. They have dutifully given to charity, provided college scholarships, and sympathetically paid their taxes. They have bought a lot of new machines—all they really need for now. They could pay out larger dividends than in the past. But there is one hitch to this—the stockholders might come to expect these higher dividends in the future—kinda' feel that they have a right to them, you know. So, rather than risk this chancy situation, many corporations have been going out into the market and buying up their own stock. In this case, the stockholders are receiving dividends for supplying a negative amount of new capital funds for this corporation.

But suppose this trend continues? Then someday this corporation will have no stockholders; it will own itself, and then, who owns the machines?

Suppose also, to confound our good sense still further, that this particular company is already highly automated and that this trend accelerates—as it surely will. At some point down the road it becomes completely automated. There are no employees. There are no owners. The corporation owns itself and hires nobody. Imaginary? Fanciful? Perhaps. But it is a very real and a very grim possibility—if we insist that the concepts of property and labor are really significant.

But I ask—does it really make any difference if the corporation is owned by 100,000 stockholders, by none, or by 200 million?

I have dwelt on the changing role of the corporation and its implications for the role of property rights to dramatize but one facet of the revolution we are witnessing. For this revolution has had, and will continue to have, repercussions through the whole of our political-social-economic-moral spectrum. What you and I have held to be true and self-evident is rapidly becoming hazy and ill-defined as a set of rules by which we can play the game of economics. For we are entering, in fact, we are being hurtled, into an era which will be as radically different from our industrial, market-directed economy as that system was different from the agrarian-feudal economy that preceded it. And it would seem inescapable to me that the forces that are moving us into these uncharted and troubled waters are irreversible. That force is, of course, the rapid expansion of science which has created new and better resources, new and better machines, new and better techniques of production.

The problem is how, i.e., by what device or rules, do we divide the output of this machine-dominated economy?

For roughly two hundred years, we have tried to equate the right to partake of production with one's contribution to production. That is, we have relied on the so-called impersonal forces of the market to reward each factor of production according to his individual productive effort.

Now this was not difficult so long as we remained a nation of small farmers and innkeepers. Many forces, however, have long since destroyed that world. The trust and the holding company, large scale industry and the machine process, the research lab, the assembly line, and Henry Ford have homogenized this productive process. And make no mistake—these very companies, General Motors, Standard Oil, du Pont, Ford, IBM were the ones that were changing the whole industrial complex. They were the innovators, the doers, the dynamic element that forced us from a nation of farmers and shopkeepers to a nation of well-to-do proletarians. But how does one measure the value of the output of the individual laborer working on the assembly line? What is he worth? Or, how many dividends should the stockholder receive when the savings for capital expansion are coming from the retained earnings of the corporation—earnings that are high because the company can dictate the price the consumer will pay? And Congress provides for fast tax write offs.

The point is, of course, that we long ago abandoned any real pretext of rewarding each member of society according to his productive contribution. There is simply no way of measuring it in this complex, highly interdependent, homogenized economy.

Instead, we reward each participant, and, each non-participant, according to positions of power and prestige—and these are defined by custom, tradition, prejudice, and fad. Deans make more money than professors because they are deans. I am not here to challenge their right to it; it is a simple statement of fact. We reward Negroes less than whites because that's the way it is. The same for women versus men. On the other hand, neither Jackie Kennedy nor Nelson Rockefeller has worked a single day of their adult life. That is, neither has contributed to the economic pie and yet we reward both quite handsomely. And it bothers us not at all that they may as a direct result become lazy, slothful, indolent, because they don't have to "work" for a living.

Now the point is, we have created an economy that has an enormous potential. The amount of goods and services that we do produce is truly staggering; the amount that we could produce is beyond our ability to comprehend.

But a simple, unyielding fact remains. We will not produce it, we cannot produce it, unless somebody consumes it.

And we have very few alternatives available that will allow us to produce and consume it.

So we may simply have to shut the system down again as we did in the 1930's.Or, we may plunge into that nightmare described by Orwell in his book 1984.

You will recall, that in *1984* the country is constantly at war. No one ever knows just who the enemy currently is, or, what the war is all about, or, even for sure where it is being fought. But there is always a major war going on somewhere. And Orwell makes it chillingly clear why: a hierarchical society is possible only on the basis of poverty and ignorance. The primary aim of war, therefore, is to use up the products of the machine without raising the general standard of living. In Big Brother's words—"War is a way of shattering to pieces, or pouring into the stratosphere, or sinking in the depths of the sea, materials which might otherwise be used to make the masses too comfortable, and hence, in the long run, too intelligent." (pp. 155–7) Intelligence is thus destroyed and with it, every manifestation of political or intellectual freedom. The great mass of mankind is in a state of constant, unrelenting fear, privation and ignorance. It is a totally despotic society, ruthlessly and tyrannically dominated by Big Brother.

Orwell leaves us no alternative, for his is an attempt to show where the industrial economy must go, so long as it—the industrial economy—is linked to a system of power and prestige.

The point is quite simple. And Orwell is quite right. We cannot have both plenty and privilege. If we want economic plenty, then we must find another alternative to Orwell's.

To return then to our point: from whence cometh this affluence? Why is it so large? Basically, it is because research and development, the creators of productivity, are now an integral, planned, and increasingly important part of our industrial activity. As few as 10 years ago, the whole economy—private enterprise~ universities, and government—devoted maybe 3–4 billion annually to research and development. Today we invest some 15 billion and that figure will approach 25 billion by the end of this decade. (Silk, p. 218)

This is what makes labor productive. It is what makes the land productive. It is what makes capital productive; it is why the shirt that I am wearing was once about a half-pint of oil.

This, then, is our dilemma: Our economic system has become inordinately productive and that production can grow at some geometric rate. But it has become impossible, literally impossible, to equate individual income to productive activity, because we can no longer measure the productive contribution of most of us.

And this is why we must find new techniques of dividing up the economic pie. And in so doing, we are going to violate many deeply felt and firmly attached precepts: Early to bed…, A penny saved…, Waste not…, By pluck, not luck, etc.

To those of us nurtured on the writings of Horatio Alger and Ben Franklin, these are familiar and comfortable guidelines. And I emphasize again, these were an orderly and efficient set of rules or guidelines at one stage of the game. But if this is the only set of rules that we can devise for the immediate future, then we are in serious trouble—perhaps that so pessimistically outlined in Orwell's nightmare. Increasing productivity must mean shorter work weeks, more coffee breaks, more feather-bedding, earlier retirement, longer vacations, and bigger dividends. These are familiar enough to be readily adopted as short-run tactics. But tactics for what? To justify, to rationalize, to ourselves an increasing annual income.

I met a fellow camper this last summer who had 13 weeks paid vacation. That is 3 months out of every year. And how did he accomplish this? By working in a steel mill. The extended vacation was an agreed upon tactic to distribute the fruits of automation. He didn't receive this vacation because of his productive activity—but because of his position of power within the productive process.

My point, however, is that devices such as this, aren't alone going to be enough, because not all nonproductive participants have that kind of power.

If I read the future in terms of a most conservative rate of increase in our growth, and in terms of our current value structure, then something has to change. If we are in fact to realize our full potential in economic growth, if we are not to waste it in an Orwellian orgy of never ceasing world war, then we must find newer techniques that will allow everybody to share equitably. For who is, and who is not productive, has ceased to have any meaning as a measure of distributing that production. And power plays alone will not solve the problem into the indefinite future because power plays are only a reflection of our past customs, prejudices, habits.

When I say everybody, I stress I mean exactly that—white and black, old and young, lazy and energetic, the quick and the slow, the bright and the dull, Democrats and Republicans, socialists and Unitarians and vegetarians, high school teachers and street sweepers. Those employed, unemployed, or the unemployable. All must enjoy a comfortable material existence—some better than others, undoubtedly. But there is no longer any need for anyone to be in want of material things. And let me again remind you—either we find techniques to do for everybody, or we won't have it long for anybody.

What in fact is that future production? What is it as we look at it today? It is resources, labor, capital goods. It is mostly know-how. What we will in fact produce depends on how you and I choose to use this productive capacity. And the important point is that we do have some choice. We do have alternatives. We can, and we will, use it to produce more houses and ice cream cones and more dishwashers and more schools and more factories. We can also use it to stimulate the economies of West Virginia or the West Indies. We can use it to wage eternal war a la Orwell. It is simply a question of priorities.

But, you quite rightly ask, just how much choice do we have? Over the next 25 years, over and above our present per capita standard of living, we will have a total of some 6.5 trillion dollars in extra productive capacity available. Let me make this point quite clear—6.5 trillion dollars over and above our present per capita share of the GNP—to do with as we see fit, without giving up anything, without tightening our belts.

That is an incomprehensible amount of goods and services. I would also emphasize that this is probably a conservative estimate.

And, if my assessment of the future is at all correct, we are faced with a serious dilemma. We must, I believe, choose from among alternatives when the standards by which we make such choices are not known to us today. But in what directions are we to move?

I personally see no absolute obstacle to our realizing the fullest opportunities of a truly free society. But human dignity and freedom can no longer be based on land and farming and the right to quit a job—as Thomas Jefferson and Adam Smith understood these relationships.

Freedom and dignity—and the two are inseparable—must tomorrow be based on the fruits of the machine. That is, not on the right to own and use land, to start a business, not on the right to quit a job, not on the right to strike, but on a universal right to share in the benefits of an industrial economy.

So long as man was bound in servitude to the chains of economic scarcity, and so long as few held keys to the prison, then most were never truly free, for most could not risk the penalty of economic starvation or privation. Today we have the means available to provide for freedom from the prejudice and ignorance and intolerance of others.

But freedom for what? This is the major task to be defined in these last decades of the 20th century. Freedom of speech, assembly, freedom of association and of ideas. Freedom to dissent from, or agree with, the views of the majority. Freedom to worship what, where, and when the conscience dictates. Freedom to favor openly Johnson or Goldwater or Irving Lancaster—the vegetarian candidate. Freedom to think, to write—to express views—in short, to dissent—to act, to create—to be truly a human being—to enjoy abstract art and the watusi, or to reject both for Whistler and the waltz. Freedom to associate with Negroes, to have them in the home, to marry them.

We can—if we wish—provide for the economic well-being of all men. All men today in the U.S.—tomorrow in Western Europe, Japan, and the Soviet Union. The day after tomorrow in the rest of the world.

But can we truly tolerate that much economic freedom?

Orwell said, "No." He felt that only by imposing a hierarchal power structure of the few over the many could mankind tolerate the abundance of the industrial economy.

But Orwell had no crystal ball. The future is in large part what we choose it to be. At least it is in some part. And the choice can still be made. But time is running out. We cannot postpone these choices interminably.

How are we to assay the cry of the Negro during the long hot nights of the summer riots. "Burn, baby, burn!" The senseless, wanton destruction of white man's property. The striking back by maids and servants and doormen—by the second-class consumers and non-producers crying, "Black Power, Black Power." Is this not an augury, a harbinger of our unfolding dilemma?

What, then, are we to do with this productive mechanism?

Well, I do not personally believe that our contemporary society, our personal, selfish devotion to television and golf, to the fast buck and faster cars, really adds up to the final meaning of man. We can surely do something better than this. There is surely something in humanity that is more and better than the motivation of acquiring a second dishwasher, a second color T.V.

In sum, we have unlocked the doors of the prison. We are free from the depressing and heartless limits of the barren turnip patch. But free for what?

Free, perhaps, in the truest sense as envisioned by Jefferson. That is, this economic mechanism can free each person from want, cold, privation. Irrespective of his "productive contribution" as measured in the market, the unemployed, the artist, the freethinker, the dissenter, the iconoclast, could be free to create, to innovate, to tinker, to dream, to do nothing "productive." For the age-old question—who is worth more to society, the king or the soldier, the merchant or the teacher, the physicist or the songwriter, Ricky Nelson or Nelson Rockefeller, is no longer a meaningful question.

The really hard question is whether we can in fact adjust to the demands; can we truly tolerate a free economic society, no less a free society?

This is the question this generation of college students must answer; it is simply a question of priorities.

ACADEMIC FREEDOM AND TENURE AT AMARILLO COLLEGE

Reprinted with permission of the American Association of University Professors from the *AAUP Bulletin*, Autumn 1967.

COMMENTARY BY MONA HERSH-COCHRAN AND CLOVIS MORRISSON

Cochran believed in individual businesses and industries taking a moral and ethical stance in their own affairs. If there needs to be a certain amount of government supervision and interference, so be it. But, it would be better if industries could monitor themselves, with their own set of rules and standards of conduct. We see that in many professions today, there are entrance requirements, courses, examinations, licensing, peer review, board certification, standards of conduct, performance evaluations, etc. The professions of medicine, law, accounting, and higher education are just a few of these.

In higher education, these standards are set by the American Association of University Professors (AAUP).Cochran was instrumental in keeping AAUP as a watch dog for the tenets of academic freedom and tenure.

Professor Kendall Cochran of North Texas State University (now University of North Texas) was appointed Head of the Ad Hoc Committee by the national office of the AAUP in Washington, D.C., to investigate the 1965 case of *Elizabeth Meisse v. Amarillo College*. The committee led by Cochran wrote their findings in the Report which is reprinted here.

The Report led to the censure in 1968 of Amarillo College (Texas) for particularly egregious violations of the 1940 Statement of Principles on Academic Freedom and Tenure of the American Association of University Professors. Professor Elizabeth Meisse, the victim of the violations, died a few years later without being reinstated into her position at the College. However, a change of leadership at the College led in 1979 to negotiations between the AAUP and the College for reform of the latter's documents and procedures on academic freedom and tenure. Subsequently, the College was removed from the AAUP Censure List.

Because this case was only the second one testing the power of the 1940 Statement and the procedures for correcting violations of it, institutions of higher learning across the country watched it closely. The AAUP committee headed by Kendall Cochran conducted an exhaustive, comprehensive and careful investigation of the matter, in the face of fierce resistance by the leadership of the College. Professor Cochran and his two colleagues spent untold hours in the service of the principles of academic freedom and tenure. That the case ultimately ended in a successful defense of those principles is a lasting legacy of Kendall Cochran. Higher education in the United States cannot maintain its excellence without these principles and the willingness of faculty members like Professor Cochran to fight hard to maintain them.

ACADEMIC FREEDOM AND TENURE AT AMARILLO COLLEGE

I. Introduction

Amarillo College, a municipally supported junior college, was established by vote of the citizens of Amarillo, Texas, in 1929. While the Amarillo College District and the Amarillo Independent School District are otherwise identical, the College is supported by a separate tax levy, and since 1958 it has been governed by an elected Board of Regents. Since 1937, it has been located on its present campus.

The institution currently has a faculty of approximately 125, including some twenty who teach only in the Evening College, which is primarily a center for adult, continuing education. Total enrollment is approximately 2800. It is a fully accredited two-year school which serves students who intend to pursue academic or professional careers, and also emphasizes vocational training in a number of areas.

Professor Elizabeth Miesse was appointed to the faculty of Amarillo College on February 23, 1947, and subsequently served continuously in a number of different departments from that date until she was notified by a telephone call from President A. B. Martin on November 27, 1963, of her suspension effective December 31, 1963. A confirming letter from President Martin was dated December 2, 1963. The Board of Regents of Amarillo College, at its meeting of December 17, 1963, after hearing statements from both the President and Professor Miesse, voted to accept the President's recommendation of dismissal.

Professor Miesse first sought the assistance of the American Association of University Professors a little more than a year later, in December, 1964. Subsequent correspondence led the Washington Office of AAUP to write to President Martin on February 5, 1965, asking for clarification of the issues involved and emphasizing the interest of the Association in this matter. Following an exchange of several letters, President Martin stated in a letter dated April 12, 1965, ".... this is the last letter you will receive from me." The Washington Office then wrote to President Martin suggesting a "personal private meeting of the principals and whatever appropriate advisors they chose to assist them." Another letter was sent on September 9, 1965, to ascertain President Martin's reaction to this suggestion. Neither letter was acknowledged.

Two further attempts were made to resolve the issues. On July 10, 1965, an Association consultant visited Professor Miesse in Amarillo. President Martin, however, was unavailable at the time. Then on December 2, 1965, a second consultant did meet with President Martin and Mr. Herman Smith, a member of the Board of Regents, to explore any avenues that could lead to a reconciliation. At this time President Martin stated that "no possible good" could come from a meeting with Professor Miesse in the presence of a third party.

It was in light of this background that the *ad hoc* committee was appointed to conduct an on-campus investigation of the dismissal of Professor Miesse.

The committee visited the Amarillo College campus on February 23–25, 1966, where it conducted interviews with several members of the administration and numerous faculty members, both those currently at the College and some who had been there at the time of Professor Miesse's dismissal. These included Professor Miesse's former department chairmen and six faculty members still on the college staff who had been members of the Committee on Professional Relations and Standards in December, 1963. This was the faculty committee, according to the tenure regulations in effect in 1963, charged with responsibility for advising the President "When the dismissal of a full tenure faculty member appears to the president necessary."

Four additional interviews with faculty were conducted by telephone, and two faculty members volunteered to speak with the *ad hoc* committee off campus and "off the record" (one came to the hotel room of the chairman at 5:30 a.m., stating that he wished to avoid public identification with the AAUP committee). The committee chairman also corresponded with President Joseph Ray of Texas Western College (now the University of Texas at El Paso), formerly President of Amarillo College.

The committee's first meeting was with President Martin; Mr. Robert Stone, counsel for the Board of Regents; and Dr. William E. Raab, Dean of the College. President Martin announced at the beginning of the meeting that he would answer no questions regarding Professor Miesse's dismissal, but would defer to Mr. Stone, who acted thereafter as exclusive spokesman, but who answered no questions specifically pertinent to the case. Although copies of correspondence and memoranda between President Martin and Professor Miesse were supplied to the committee, Mr. Stone said that the committee's questions about the case would be answered by a tape recording of the December 17, 1963, hearing before the Board of Regents. Neither a copy nor a transcript of the tape was made available, but the committee spent four hours listening to it in a room on the campus provided by the administration and taking extensive notes on it. The tape, which was less than one hour in length, was stopped and replayed on numerous occasions to permit accurate citation of its contents, and it is the source of many of the quotations used in this report.

The text of the report was written in the first instance by the members of the investigating committee. In accordance with Association practice, the text was sent (a) to the Association's Committee A on Academic Freedom and Tenure; (b) to the teacher at whose request the investigation was conducted; (c) to other persons directly concerned in the report; and (d) to the administration of Amarillo College. In the light of the suggestions received and with the editorial assistance of the Association staff, the report has been revised for publication. Comments were received from the members of Committee A and from the teacher. The reply of the College, made by its Counsel, provided no specific suggestions for amending the report. No reply was received to further invitations to provide the Association with comments prior to the publication of the report.

II. EVENTS PRECEDING THE DISMISSAL

A. Early Developments

A lengthy series of events preceded the dismissal action, some of which apparently contributed to Professor Miesse's reduction in the spring of 1962 to part-time teaching status with reduced compensation, and her eventual suspension and dismissal.

As stated above, Professor Miesse began teaching at Amarillo College in 1947. In the academic year 1960–61, Dr. A. B. Martin first assumed his duties as President of the College. In that same year Professor Clara C. Linderholm was appointed Chairman of the Department of Business Administration, and Professor Miesse continued to be assigned her regular courses (Business Correspondence, Typing, and Office Management) in that department.

In the spring of 1961, Professor Miesse agreed to assume certain part-time duties in the area of public relations for the fall semester of 1961–62. To help prepare herself for those duties she attended summer school at the University of Colorado in 1961.

On August 21, 1961, President Martin wrote a seemingly cordial letter to Professor Miesse while she was in Colorado, describing her new duties: She would continue to work in the Department of Business Administration and, as previously planned, would also assume public relations responsibilities. President Martin emphasized, "We cannot devote more than two-fifths of a faculty member's time to this area of work" (that is, to public relations). The President concluded, "Your schedule would call for a two-fifth's time on communications work and three-fifth's time to teaching. I think this will be a happy combination and give you plenty of lee-way." This letter also informed Professor Miesse that a new salary scale had been approved by the Board of Regents, from which she would benefit, and that a request she had made for increased office space was being favorably received. In short, as of August 21, 1961, relations between Professor Miesse and President Martin appeared to be amicable.

On August 24, 1961, Professor Miesse replied to President Martin, raising certain questions regarding her schedule for the coming year. She stated that she had just received a letter from Miss Linderholm in which she was informed that she would have two day classes and one night class in the Department of Business Administration. Although she indicated that she was willing to cooperate fully, she expressed her disappointment in this schedule: "the assignment is not as fair as it might be, especially since I am *not* being paid for the night class."

She also noted her assumption that, with the pressure of the public relations job, she would be relieved of all responsibilities to the Business Administration Department except teaching; she expressed her appreciation of President Martin's understanding of her need for a second office; and she stated her agreement with the President as to the general type of public relations program the College should have. The letter throughout is friendly and casual, indicating, as did President Martin's letter, cordial relations between the two. Her schedule for the fall of 1961 was three courses in the Department of Business Administration, and two-fifth's time devoted to public relations.

On March 9, 1962, President Martin wrote to Dean of the College Joseph Davis that, "On February 12, 1962, we processed a Personnel Form calling for a change of status with respect to the salary of Miss Miesse. The change adjusted her salary to the maximum for her training and experience." The major point of the letter, however, was to inquire of Dean Davis regarding Professor Miesse's teaching load. It was Martin's expressed understanding that she was supposed to teach four three-semester-hour classes and perform additional duties in lieu of the fifth course. But in reviewing the program for the spring semester, he discovered that she was teaching only three courses for a total of nine semester hours, and concluded, "Either there is a mistake in the record or Miss Miesse has not been assigned to a full load for the Spring semester, 1962. I would like to have the total of Miss Miesse's teaching load clarified for the record."

Ten days later, March 19, Professor Linderholm wrote a memorandum to Dean Davis regarding assignments for the fall semester of 1962: "I understand that Miss Beth Miesse is to be transferred to the Department of Psychology for the Fall semester, 1962. Therefore, I am excluding her in making plans for the Department of Business Administration for the academic year 1962–63." (It should be noted that Professor Miesse has a master's degree in psychology as well as one in business administration.)

On March 22, 1962, Dean Davis replied to President Martin's March 9 inquiry regarding Professor Miesse's schedule, indicating that her current assignment was nine hours plus certain other duties, such as supervising a typing lab, writing a typing syllabus, doing a departmental inventory, and editing *The Messenger* (the student publication). Dean Davis concluded by saying that this constituted a full load for Professor Miesse for the semester.

The *ad hoc* committee was unable to clarify the reasons for the sequence of events between February, when President Martin approved the maximum salary increase available for Professor Miesse, and March, when chairman Linderholm indicated she would not include Professor Miesse in her plans for the fall of 1962. No evidence was made available to indicate the source of this decision, nor would President Martin comment when queried by the committee. It is clear, however, that basic changes were made in Professor Miesse's assignment for the fall of 1962, apparently without her knowledge. And soon after, the first serious open break occurred and is reflected in a letter from President Martin to Professor Miesse, dated April 10, 1962:

> It has been reported to me that last Friday at a meeting of the Instructors' Association on this campus you presented a report, along with editorial comments, which constituted an unwarranted personal attack on the

> administration of Amarillo College. I was shocked to learn that you would do such a thing and I do not understand what possibly could have motivated you in preparing and presenting such a report.
>
> Please furnish this office with a copy of the report together with a resume of your editorial comments. This is necessary to verify the accuracy of the report which I have received.
>
> If an analysis of the report and the comments which you made to the faculty members of the College reveal that you did make a personal attack on the administration of the College, then the question is immediately raised as to whether or not your conduct at the meeting of the Instructors' Association comes under the provisions of Section II Paragraph D, of the Statement on Faculty Tenure and Status, as amended August 15, 1961, which reads as follows:
>
> *Abrogation of Tenure:* A faculty member may divest himself of the benefit of tenure by conduct which is inimical to Amarillo College and, further, his employment, upon proper notice, may *be* terminated for malfeasance, inefficiency, or contumacious conduct.

Then on May 4, 1962, a conference was held, at President Martin's request, in the President's office, attended by Professor Miesse, Dr. Martin, Dean Davis, and Dean Stevens of the Evening College. According to President Martin's agenda, the purpose of this meeting was to tell Professor Miesse that her teaching load for 1962–63 would be reduced to a total of two, perhaps three, classes because "personality differences precluded assignments in those areas where her transcript showed adequate training." This information was given to her so that she could "make other plans for employment for 1962–63 if she was not satisfied with this arrangement."

On May 15, 1962, the Board of Regents of Amarillo College discussed the Miesse case in executive session. It was agreed that Professor Miesse would be assigned teaching duties on the basis of the reduced load available in the Department of Psychology, that her salary would be reduced accordingly, and that she would be "placed on probationary status." Professor Miesse states that she does not recall being informed of the decision to put her "on probationary status."

In the fall of 1962, Professor Miesse did return to Amarillo College, for the first time on an actual part-time (three-fifths') basis, with commensurate salary.

It was during this Christmas season, 1962, that Professor Miesse wrote certain letters and Christmas cards to several members of the administration which are referred to in President Martin's charges (discussed below) and which were made available to the Board prior to its December 17, 1963, meeting at which Professor Miesse was dismissed.

On April 30, 1963, President Martin wrote Professor Miesse informing her that her load for the academic year 1963–64 would be reduced from three-fifths to two-fifths, and that her salary accordingly would be cut to a maximum of $3140 for the two courses. The President concluded the letter saying, "This information is given you so you can make your plans for the next year. It is my suggestion that in view of the low salary you would draw at Amarillo College you may wish to seek employment elsewhere."

Professor Miesse states that for personal reasons, including a long-standing attachment to Amarillo and the College, and because of her belief that this problem could be resolved satisfactorily, she chose not to make a serious effort to obtain an appointment elsewhere. In any event, in the fall of 1963, she resumed her teaching position at Amarillo College on a two-fifths' basis. She states that she discussed this reduced load informally with members of the Faculty Committee on Professional Relations and Standards, inquiring as to what her rights were. However, the Committee, caught in the rush of the school year's ending in May, did not meet formally and took no action.

Then on Tuesday, November 26, 1963, Professor Miesse took a copy of the College constitution to an attorney. She asserts that she asked him to interpret the statement on faculty tenure and status, and particularly to give her an opinion about whether her reduced load and salary was in harmony with the College constitution. According to Professor Miesse, "There was only one meeting; it was brief; nothing was said about legal action; the only comment by the attorney was that he felt the matter could be straightened out in a conference after he had read the Constitution."

By some means not clearly established by the committee, President Martin learned that Professor Miesse had been to see the attorney. In any case, on the afternoon of Wednesday, November 27, by telephone, President Martin suspended Professor Miesse. According to the President's statement to the faculty on December 2, 1963, he had received information on November 27, 1963, that Miss Mary E. Miesse:

> has entered into negotiations with an attorney in contemplation of bringing some action against me, the Board of Regents or other college personnel. On what grounds or basis is unknown to me at this time. Upon receipt of this information, I sought verification by a telephone call to the attorney. This I received. Following the procedure called for, I telephoned Miss Miesse, informing her that I had no choice in view of her overt action but to suspend her from duties to Amarillo College as of December 2nd.

During its final visit with administrative officers of the College the committee tried to ascertain why efforts had not been made to resolve the situation prior to the sudden suspension of Professor Miesse by President Martin. Both the President and Mr. Stone declined to explain. However, President Martin did repeat that the situation had been intolerable, and that there had been "many efforts" to resolve it before Professor Miesse had been dismissed. When asked, though, to cite any specific conferences between President Martin and Professor Miesse *after* the May 4, 1962, meeting, at which Professor Miesse's load had first been officially reduced, President Martin and Mr. Stone did not reply. Asked if there had been any letters written to Professor Miesse between May, 1962, and November, 1963, they again did not reply.

Regarding President Martin's later (December 17, 1963) letter to the Board, in which he had referred to the Christmas (1962) letters as indicating "an excess of communication," the committee asked if there had been other letters received to account for this evaluation. The President said there had been many letters, but when the committee inquired further about these, he and Mr. Stone would give no further information. Professor Miesse had told the committee that during this period of time she "may have written one or two complimentary letters to President Martin, but that was all." She claimed, however, that there had been no communications from President Martin between May of 1962 and the telephone notification of suspension in November, 1963, no personal conferences, and no telephone communications. She said that she had received only one letter, that of April 30, which had announced the reduction to two-fifths' load. And she said that she had casually spoken to the President on the campus perhaps once or twice during this time. President Martin and Mr. Stone would neither confirm nor deny any of this information.

Whatever the original differences between President Martin and Professor Miesse may have been, the evidence available to the *ad hoc* committee indicates no serious attempt to reconcile them or to find a workable resolution for at least the nineteen-month period immediately preceding the suspension and dismissal.

B. The Suspension

The December 2, 1963, letter to Professor Miesse from President Martin confirming his intention to suspend her reads as follows:

> This letter confirms my telephone call to you on the evening of November 27, 1963. The purpose of the call was to inform you that, because of information which I received at approximately 5:00 pm on November 27, I had no choice but to suspend you from all teaching and other

responsibilities to Amarillo College, effective as of the date of Monday, December 2, 1963.

On the afternoon of the 27th I was informed that you had employed an attorney to represent you in contemplation of some sort of legal action to be brought against either me, the Board of Regents, or personnel of the College. Further, I learned that your attorney was in the process of obtaining statements or depositions from members of the faculty. The nature and purpose of these statements are unknown to me. However, without doubt, the disruptive effect of this procedure which you have employed is easily recognized as to its effect upon the program and personnel of Amarillo College.

On April 10, 1962, you were informed in a letter that because of your conduct at a meeting of the faculty which was held on the preceding Friday you had placed yourself in conflict with Section II Paragraph D, of the Statement on Faculty Tenure and Status now in effect, which was amended by the Board of Regents on August 13, 1963.

This paragraph reads as follows:

D. *Abrogation of Tenure,* A faculty member may divest himself of the benefits of tenure by conduct which is inimical to Amarillo College and, further, his employment, upon proper notice, may be terminated for malfeasance, inefficiency, or contumacious conduct.

Your current action, which consists of employing an attorney and contemplating legal action as referred to, constitutes a definite violation of this section of the Statement on Faculty Tenure and Status. Therefore, you may consider this as the proper notification called for in the said paragraph of this Statement.

On December 5 (following the suspension), in a letter to Mr. Jerome Johnson, Chairman of the Board of Regents, President Martin outlined a lengthy series of charges against Professor Miesse. She states that she did not receive a copy of this letter, and President Martin did not say he had sent her a copy. Accompanying the letter were a number of documents and letters dating back to 1960 when Dr. Ray was President of the College, with President Martin's comments on each of them. He concluded by saying,

> There is much more which can be said; suffice it to say that our minds are made up. We can no longer permit the situation as it persists in regard to Miss Miesse to continue. Therefore, I shall recommend to the Board of Regents at the next regular meeting that the service of Miss Miesse at Amarillo College be terminated as of December 31, 1963.
>
> The recommendation will be carried as a regular agenda item for the meeting of December 17, 1963. It gives me no pleasure to make this recommendation, but as President of the College I have no other choice since all other possibilities have been exhausted.

On December 16, Professor Miesse wrote to President Martin as follows:

> As much as I like, respect and admire you, I am unable to accept your decision stated on Dec. 2, which "confirmed" your telephone call of Nov. 27. My reasons include the following:
>
> 1. There is no specific, verified charge.
>
> 2. The alleged general charges are indefinite and have not been proven.
>
> 3. The letter is inaccurate in major points.

The Constitution and Statement of Faculty Tenure and Status makes no provision for suspension, and the dismissal procedure prescribed by the Amarillo College Board of Regents has not been followed.

The crux of the matter has not been presented.

I am, at this time, requesting reconsideration—based on facts—of the matter, that is, of the entire situation; reinstatement to full professorial status on a full-time basis, with no loss of tenure; payment for the financial losses I have endured since the Spring of 1962. It would be better if we could reach agreement between ourselves, but if this is as impossible as it appears to be, a discussion with the Board of Regents is in order.

I have waited until today to write because of the meeting with the Committee on Professional Relations and Standards, which, as you know, was scheduled for today. I do not yet know what the recommendation of the Committee will be. The Committee did, however, suggest that I immediately request a meeting with the Board of Regents.

It is my understanding that you plan to present the matter to the Board of Regents on Tuesday evening, Dec. 17. Remembering my nearly 20 years of dedicated service to Amarillo College, I am, therefore, requesting that before the Board of Regents makes a final decision, I be granted a hearing at the convenience of the Board members.

As I have said in the past, I say again: The entire matter is, primarily, a breakdown in communication. What is needed is a breakthrough. It is unfortunate that so simple a thing has snowballed into something so complex. But solution to the problem is still possible. There is nothing about it mature, intelligent, professional people cannot cope with and cannot, through understanding, solve completely.

President Martin forwarded copies of this letter to the Board of Regents and, on December 17, for the benefit of the Board, answered her five points as follows:

1. There is no specific, verified charge.

The answer to this statement is that, due to a continuing series of acts, she has violated the provisions of the Amarillo College Statement on Faculty Tenure and Status, Section II, Article D, which states that a faculty member may divest himself of tenure because of certain acts. Specifically, the charge against Miss Miesse is that she is flagrantly guilty of contumacious conduct toward the administration of the College, contumacious being defined as being "perverse in resisting authority; stubbornly disobedient; rebellious, insubordinate." Evidence of this is contained in the copies of the letters sent to the Board.

2. The alleged general charges are indefinite and have not been proved.

On May 4, 1962, at 2:30 p.m., at a conference attended by Miss Miesse, the President of the College, the Dean of the College, and Dean of the Evening College, it was specifically pointed out to her that her inability to get along with her department heads made it impossible to assign her teaching duties in areas in which she was qualified, and that she would have to change her attitude in order to remain on the faculty of Amarillo College. *It lies within the discretionary power of the administration of the College, expressed through the President,* to determine whether or not any member of the staff of the College is guilty of contumacious conduct with respect to carrying out assigned duties and responsibilities toward the College [Emphasis added]

3. The letter is inaccurate in major points.

The statement contained in the letter to Miss Miesse dated December 2, to-wit that she was in the process of employing an attorney, was verified by a personal telephone call to the attorney representing Miss Miesse.

4. The Constitution and Statement of Faculty Tenure and Status makes no provision for suspension; and the dismissal procedure prescribed by the Amarillo College Board of Regents has not been followed.

While the Constitution itself does not provide for suspension of faculty members, nor does the Statement on Faculty Tenure and Status, suspension is an accepted form in college and public school administration pending consideration by the Board of Regents of all factors including the recommendation of the President or other administrative officers with respect to final termination of the faculty member.

In addition, the Statement on Faculty Tenure and Status definitely states that a faculty member may divest himself of the benefits of tenure. *In the opinion 0f the President, Miss Miesse has no right of tenure. Therefore, Article B of the same Section, which deals with full tenure, does not apply in Miss Miesse's case.* [Emphasis added] But, to preclude any argument on the part of Miss Miesse, I have arranged that she be present at the Board's pleasure tonight.

In addition, acting under the provisions of Article D of Section II, the procedure called for has been followed.

5. The crux of the matter has not been presented.

Time and time again, Miss Miesse has been warned orally and through letters that she could not continue at Amarillo College unless her attitude changed. The President even went so far as to suggest in a letter dated April 30, 1963, that Miss Miesse seek employment elsewhere.

Miss Miesse states in her letter of December 16 1963, that the entire matter is "primarily a breakdown in communication." The copies of the letters previously submitted to the Board indicate to the contrary that there has been an excess of communication. In addition, the administration of this College has leaned over backwards to try to accommodate Miss Miesse, to no avail. Therefore, my recommendation to the Board is that the services of Miss Miesse at Amarillo College be terminated. The question of the effective date lies at the discretion of the Board.

President Martin also suggested "that this matter be attended to at the meeting of the Board tonight, December 17. To that end, I have requested Miss Miesse to be present at 8:30 in order to appear before the Board."

C. The Faculty Committee Hearing

In discussion with the *ad hoc* committee, the five members of the Amarillo College Committee on Professional Relations and Standards who were still on the College staff reported that they had met on December 16, 1963, at the request of Professor Miesse. The members of this Committee were unanimous in agreeing that President Martin had not approached the Committee or sought their advice, he had not requested a hearing, nor had he specified charges against Professor Miesse. The Committee said they had asked President Martin if such a hearing were under their jurisdiction, and he had said it would be and that Professor Coy (Committee Chairman) should call a meeting of the Committee if Professor Miesse requested it.

In any event, the Committee did hold a meeting and did hear Professor Miesse. However, the members of the Faculty Committee agreed that, at the time, they had not been informed by President Martin of any particular basis for Professor Miesse's dismissal. Their knowledge of the case was derived from the public announcement that she had been dismissed because of actions contrary to the best interests of the College. Since there were no formal charges upon which they could act, and since President Martin had not specifically sought their advice, they were reluctant to take any specific action. In their testimony to the *ad hoc* committee, the members of this Committee said that according to their best memory,

> We had heard her side of the story and assumed that if they [the administration] wanted to bring charges they

> would have. And since they had presented no charges, we assumed they did not want to. And we saw no reason to ask what they might be. Since we had, therefore, heard only her side of the conflict, we recommended that the President take the case to the Board of Regents. We also recommended that there be a dosed hearing.

Professor Miesse's recollection is that the Committee was *told* by the President that he was taking the matter to the Board, and that they recommended that she request to be present during Board consideration. This and other conflicts, however, could not be resolved, for, if any minutes of this Committee meeting were kept, it appears that they were later lost or destroyed.

D. The Hearing before the Board of Regents

On December 16, following her meeting with the Faculty Committee, Professor Miesse requested a hearing before the Board; she received a telegram on December 17 requesting her to appear at the Board meeting that evening at 8:30 p.m.

In his letter to the Board dated December 17, President Martin claimed that because of her contumacious conduct, Professor Miesse had "divested herself of the rights of tenure. Therefore, Article B ... which deals with full tenure, does not apply in Miss Miesse's case; but to preclude any argument on the part of Miss Miesse, I have arranged that she be present at the Board's pleasure tonight."

President Martin's letter of December 2 to Professor Miesse had cited as the only reason for her suspension, " . . . employing an attorney and contemplating legal action." However, his letter of December 5 to the Board of Regents charged in essence that: (1) Certain department chairmen did not want to work with her. (2) She had delivered in 1962 a controversial report to the Instructors' Association. (3) At Christmas, 1962, she had written critical letters to several administrative officers, and the "attitude toward the authority of the administrators, as evidenced by [these] letters" had made her retention on the faculty "intolerable." His December 17 letter to the Board of Regents said, "Specifically, the charge against Miss Miesse is that she is flagrantly guilty of contumacious conduct toward the administration of the College. . . . Evidence of this is contained in [Christmas, 1962] letters sent to the Board." Professor Miesse maintained that she received no copy of either of these letters.

At the hearing, President Martin read a prepared statement in which he charged Professor Miesse with "contumacious conduct," which he defined as being "perverse in resisting authority; stubbornly disobedient; rebellious; insubordinate." His examples of such conduct were essentially a summary of the points he had offered in his December. 5 and December 17 letters to the Board, plus three new charges: (1) She had "aggressively pursued" him with proposals for favoritism. (2) She had made derogatory remarks about then-President Ray at a banquet some years earlier. (3) She had instituted a typing course for high school students without first consulting the President.

Following President Martin's presentation, Board Chairman Johnson informed Professor Miesse that if she had "any person other than yourself, we would be glad to hear them." She replied, (according to notes taken by the *ad hoc* committee from the tape recording of the meeting):

> I don't, because I was merely told to be here ... The [faculty] committee urged me to immediately ask for a hearing, not necessarily an immediate hearing. Most of the things said by President Martin *have been heard by me for the first time this evening.* . . . I am not quite prepared for what has been presented .... *I was not told that these matters would be presented tonight.* ...The matter that I thought this meeting was to be about was my consultation with an attorney. I thought the action of the Board would concern the facts in the letter of dismissal. I think the Board should not consider anything else...[Emphasis added]

Professor Miesse did, however, attempt an impromptu defense against President Martin's charges. Briefly, she replied as follows: (1) She had consulted with President Ray and Dean Stevens before instituting the new typing class, but since a change in department heads was in process at that time, it was possible that the new head had not been informed. (2) The Christmas letters had been sent in the spirit of charity and forgiveness, but their tone and meaning had been distorted by excerpts being quoted out of context. (3) To the charge that the Chairman of the Business Administration Department could not work with her, Professor Miesse stated that she personally had recommended the Chairman for the position, that the Chairman was generally critical of the entire staff, that she [Professor Miesse] had never been told of any specific dissatisfaction with her work, and that she had first learned that she was no longer a member of the Business Administration Department from a book salesman who had been so informed by the Chairman. (4) No defense was offered to the charge of seeking favoritism, since no specifics were cited. (5) The allegations of poor relations with previous administrations, she contended, ought to have been made and supported by them, not by President Martin, and she knew of no such complaints. Also, she said that the speech at the farewell banquet, which it was claimed had offended Dr. Ray, was intended to be humorous and friendly, and Dr. Ray had apparently taken it in that spirit. (6) Concerning the "controversial" report of the April 6, 1962, meeting of the Instructors' Association, which she felt was a basic cause of President Martin's attitude toward her, Professor Miesse stated that, as secretary, she was instructed, by vote of the Association at a previous meeting, to prepare the report, which was in any case simply a history of the organization, and had obtained the President's permission to present a report. Much of the discussion at that meeting was related to the Instructors' Association having just previously been abolished, and she believed it was later reported to the President that she, or the report, was critical of him. Both charges, she said, were completely unfounded.

In addition to replying to the charges, Professor Miesse set forth what she believed to be her contribution to Amarillo College, including: her recognized teaching abilities; her participation (along with the Speech Department) in the creation and teaching of television classes, one of which had received first-place honors in competition with colleges and universities much larger than Amarillo College; her sponsorship of the student publication that won first-place standing among junior college newspapers in the state; and the state citation awarded her as "Business Woman of the Year."

Throughout the Board meeting, Professor Miesse protested that she was being forced to defend herself against charges that she had been unacquainted with until she had heard President Martin read them at the beginning of the hearing, that she had never had a previous opportunity to refute any of the allegations made, and that she had not been informed in advance of the hearing of the charges or the fact that she would have to defend herself against them. And she asked, "If the decision is unfavorable to me, may I ask the indulgence [of the Board] for one more session, for which I may come better prepared?"

One Board member stated that an additional hearing, for which Professor Miesse might be better prepared, would not be "worth a grain of salt," and no member spoke in support of her request. Observations by two members of the Board seem to reflect a dominant attitude of that body: "Teachers need to get along with people with whom they work. They deserve her loyalty. You have made statements that constitute an attack on department heads and deans." "When an instructor in an institution has made attacks on all the persons who work with her and are most responsible, that person cannot any longer serve or be useful to the institution. To me, it seems that things have reached a point where it would be impossible for both parties. This is my reaction on the basis of things you have written. I make no judgments as to whether they were reasonable or not. It is not our purpose to enter into debate." No other member spoke in disagreement with these conclusions, or in behalf of Professor Miesse. One member did say that her defense of herself indicated a "capability that perhaps is somewhat in excess of our needs here."

The following day Chairman Jerome Johnson wrote to Professor Miesse:

> After your appearance before the Board of Regents of Amarillo College last evening, and after full consideration of all matters brought before the Board, it was determined by the Board that termination of your employment as a member of the faculty would be in the best interest of the College.
>
> It was also determined that you would receive the balance of your salary at the current level for the remainder of this school year.
>
> It is with the deepest regret that the Board has found it necessary to take this action. We were not unmindful of your long service and devotion to Amarillo College. It was the Board's considered judgment, however, that the overall welfare of the College required this action.

III. Issues and Findings

Three basic issues were of primary concern to the *ad hoc* committee: (I) Was there a violation of Professor Miesse's tenure rights? (2) Did the procedures followed in the dismissal constitute acceptable academic due process? (3) Was there, on the basis of the information available to the committee, adequate substantive cause for her dismissal?

A. The Question of Tenure

Professor Miesse was a full professor in her seventeenth year of service at Amarillo College when notified of her dismissal. Consequently, she was clearly entitled to tenure under the provisions of the 1940 *Statement of Principles on Academic Freedom and Tenure,* which, in part, declares:

> After the expiration of a probationary period, teachers or investigators should have permanent or continuous tenure,

> and their services should be terminated only for adequate cause ....
>
> Beginning with appointment to the rank of full-time instructor or a higher rank, the probationary period should not exceed seven years.

She had also achieved tenure under the *Amarillo College Statement on Faculty Tenure and Status,* in effect at the time of her dismissal, which provided that:

> A faculty member at Amarillo College shall for the first three years normally be considered to be on probation. Achievement of full tenure shall normally be decided by the President in the spring of the third year of service, after recommendation by the Department Head and the Dean of the College: provided, however, that the President may in special cases, after receiving recommendation from the Department Head and the Dean of the College, grant full tenure before the completion of three years of service.

Neither President Martin nor the Board of Regents questioned Professor Miesse's tenure status under this *Statement,* but the President maintained that she had divested herself of the rights of tenure because of "contumacious conduct," referring for his authority to the following statement in the Amarillo College regulations:

> A faculty member may divest himself of the benefits of tenure by conduct which is inimical to Amarillo College and, further, his employment, upon proper notice, may be terminated for malfeasance, inefficiency, or contumacious conduct.

Elaborating on his understanding of the meaning of tenure, President Martin explained at the hearing:

> It is the responsibility of the President to ascertain the true attitude of any faculty member. And Miss Miesse

> has acted in such a way over so long a period of time, that we can't continue her on the faculty. Tenure is not required by law; it is only an accommodation. The Board of Regents delegated this right to the faculty. But this is good only so long as the faculty member acts in good faith.
>
> And so delegating, the Board implies a contract, but this is good only so long as a person holds to the contract that is, so long as the person does not violate the section of the tenure statement on "Abrogation of Tenure."

This concept seemed to the *ad hoc* committee clearly incompatible with the generally understood meaning and implications of tenure. If the rights of tenure are an "accommodation" that can be withdrawn at the discretion of an administration, or of which a faculty member can be divested with none of the procedural protections of due process, then a tenure program—and the academic freedom it protects—is meaningless. Yet this is the conception expressed by President Martin, and, as reflected in the tape recording of the hearing, accepted by the Board of Regents, as indicated by the following statement of its President to Professor Miesse made toward the close of the hearing:

> There is no question of your innocence or guilt. And we aren't partisans to you or Dr. Martin. We are interested only in the welfare of the school.

Seemingly, it did not occur to the President of the Board that "the welfare of the school" might be well served by a tenure policy meeting national standards that have been formulated and refined through years of experience by the academic community.

As an apparent aftermath of the Miesse case, either at its meeting of December 17 or shortly thereafter, the Board amended the then-applicable Statement on Faculty Tenure and Status so as to eliminate subsections B, C, and D of Section II, which (at the time of Professor Miesse's dismissal) defined the rights and privileges of tenure at Amarillo College. On February 18, 1964, those sections were officially replaced by the following subsection B, and the provisions on Probation and Tenure were amended to read as follows:

> SECTION II. Probation and Tenure
>
> A. *Probation.* A faculty member shall be considered to be on probation during the first three years of service at Amarillo College.
>
> B. *Tenure.* Upon the recommendation of the President of the College after completion of the probationary period, each faculty member shall be assured of continued employment for as long as the service rendered is considered by the Board of Regents to be satisfactory and consistent with the needs of the College.

This current policy of Amarillo College, especially in light of the circumstances out of which it was developed, seems to the committee to subject the tenured faculty to the distinct possibility of arbitrary dismissal without adequate cause or procedural protections.

Further, there is presently no faculty organization at Amarillo College to consider problems of faculty tenure, or to confer meaningfully with the administration on general faculty problems of any kind. Both the Faculty Senate and the Instructors' Association, which existed when President Martin's administration began, were abolished soon after his appointment, apparently without consultation with the faculty or its elected representatives, and the Committee on Professional Relations and Standards was similarly abolished by the Board of Regents shortly after they dismissed Professor Miesse, both actions being reported by President Martin at a general faculty meeting on December 18, 1963 (by common recollections) —the day after Professor Miesse's dismissal.

Finally, it should be noted that President Martin justified his actions with the argument that no binding legal basis in state law existed for tenure at Amarillo College, and, consequently, that it was "merely an accommodation." Though he was at that time technically correct about the absence of such a state law, that fact would not prohibit the existence of a professionally acceptable tenure policy; and, in fact, under those same circumstances Amarillo College did originally establish and publish a tenure program that compared favorably with those of the state-controlled colleges and universities in Texas.

As a tenured member of the faculty in her seventeenth year of service at Amarillo College, Professor Miesse had every right to expect security of appointment which could be interrupted only for adequate cause, and that to be determined by full due process.

B. The Question of Due Process

Since Professor Miesse had achieved tenure at Amarillo College, she should have been dismissed only for adequate cause established under procedures meeting recognized standards of due process. Both the 1940 *Statement of Principles on Academic Freedom and Tenure* and the *Amarillo College Statement on Faculty Tenure and Status* (then in effect) provide for some such procedures, though the latter was less detailed and comprehensive.

The 1940 Statement of Principles asserts that:

> Termination for cause of a continuous appointment should, if possible, be considered by both a faculty committee and the governing board of the institution. In any cases where the facts are in dispute, the accused teacher should be informed before the hearing in writing of the charges against him and should have the opportunity to be heard in his own defense by all bodies that pass judgment upon his case. He should be permitted to have with him an advisor of his own choosing who may act as counsel. There should be a full stenographic record of the hearing available to the parties concerned. In the hearing of charges of incompetence the testimony should include that of

> teachers and other scholars, either from his own or other institutions.

While somewhat more general, the Amarillo College regulations in force at the time of Professor Miesse's dismissal provided in Section II B. *Full Tenure* state that:

> A faculty member holding full tenure at Amarillo College shall not be subject to arbitrary dismissal. When the dismissal of a full tenure faculty member appears to the President necessary, he shall request the advice of the Committee on Professional Relations and Standards. The Committee shall give that advice with all due dispatch. It may at its discretion give a hearing to the faculty member involved. No dismissal shall be effected until the President makes a recommendation on the issue to the Board of Regents. The Board will, upon the request of the Faculty member concerned, provide either a public or a closed hearing on the issues involved. Only after the above procedures are observed can a full tenure faculty member be dismissed.

It should be noted, first, that two significant actions taken against Professor Miesse previous to her dismissal—her reduction to "probationary status" with part-time load and compensation, and her summary suspension—appear to have been taken without due process and in disregard of accepted academic standards. The Amarillo College Statement made no provision for "probationary" status for *tenured* faculty, and when the *ad hoc* committee asked specifically how a tenured professor could be put on "probation," President Martin declined to answer, and Mr. Stone said simply, "I would assume that if she didn't behave herself, she could be put on probation."

The Amarillo College Statement also did not provide for suspension of a tenured faculty member, though the *1958 Statement on Procedural Standards in Faculty Dismissal Proceedings,* jointly supported by AAUP and the Association of American Colleges, recommends that such grave action should be taken against a faculty member only when ". . . immediate harm to himself or others is threatened by his continuance." In this instance, the cause, stated in writing, was the fact that the faculty member had "consulted an attorney," presumably for reasons known only to herself.

As to the dismissal itself, it is true that Professor Miesse was given the opportunity to appear before the Board of Regents, but she received less than one day's notice that she was to appear and was never given a written statement of charges. Finally, while the Board did invite the testimony of a spokesman in her behalf once the meeting had begun, Professor Miesse had no such assistance, since she had no way of knowing beforehand that she might need (or would be permitted) such help to defend herself against a series of charges not previously made known to her.

In short, almost every major feature of acceptable due process was ignored in the proceedings, which consisted of a "hearing" with less than twenty-four hours' notice, without opportunity for counselor supporting witnesses, on charges not previously provided to Professor Miesse. Finally. After Professor Miesse had pointed out the impossibility of defending herself adequately under such conditions and had asked for another hearing at which she could be better prepared, her request was denied.

The *ad hoc* committee rejects—as itself embodying a violation of due process—President Martin's contention that Professor Miesse had "already divested herself of the right of being heard" and of the procedural protections provided for in the regulations of Amarillo College. And it should be noted that even that stated policy, abandoned shortly after the meeting, fell far short of acceptable academic standards. The procedures which were observed at the meeting of the Board of Regents were clearly inadequate in every major respect.

C. The Substantive Bases for Dismissal

While the absence of due process precluded an acceptable determination of the validity of the charges made against Professor Miesse, since a substantive basis for the dismissal action was presented, the *ad hoc* committee attempted to clarify and evaluate the grounds offered by President Martin and accepted by the Board of Regents.

In the President's letter of December 2 to Professor Miesse, the only cause given for her suspension was "employing an attorney and contemplating legal action." This charge, however, was not raised formally before the Board. In any event, merely retaining an attorney cannot be grounds for suspension or dismissal; nor does "contemplating legal action," an intention immediately denied by Professor Miesse.

Of the six charges presented by President Martin to the Board of Regents on December 5 and December 17, so far as the *ad hoc* committee could learn from the tape-recording of the Board meeting and its other sources, he offered no support for two of them: that Professor Miesse "aggressively pursued" him for favored treatment, and that she had instituted a special typing class without first consulting with the President.

Of the four remaining charges, the basic one is set forth by President Martin in his December 17 letter to the Board of Regents:

> Specifically, the charge against Miss Miesse is that she is flagrantly guilty of contumacious conduct toward the administration of the College. . .. Evidence of this is contained in the [Christmas, 1962] letters sent to the Board.

The other three charges against Professor Miesse were that (1) her department chairman could not work with her; (2) she had delivered a "controversial" report in 1962 to the Instructors' Association; and (3) she had made derogatory remarks about then-President Ray some years earlier at a farewell banquet.

1. The 1962 Letters

The letters, cited as concrete examples of contumacious conduct, were sent to several members of the administration. Copies of some of these letters were supplied to the Board of Regents by President Martin, who also made copies available to the *ad hoc* committee. Each is a rather long, detailed letter in which Professor Miesse told the recipient of his good qualities, with occasional reminders of incidents which demonstrated the need for personal improvement; she prayed for each of them, advised each to do better and to do more with his intelligence and ability. In most of the letters she referred to the role the addressee had played at the conference on May 4, at which time she had been reduced to part-time status. She said she was not guilty of the various charges leveled against her, and asked each person to reconsider his own set of values and goals and be fair in judging others.

Only short excerpts from these letters were read at the Board hearing. For example, it was read into the record that she wrote to one person, "We both know the deception in your 'reports' to Dr. Martin." And to another, "I am fully aware of the role you have played in my experiences, particularly your part in the climax which came last Spring." It was apparently such excerpts as these that led Dr. Martin to say to the Board of Regents, "These were attacks on the integrity and honesty of administrative officials. When a person continues to make attacks, then that person is no longer of service to the institution."

The *ad hoc* committee, after hearing the above testimony from the tape recording, obtained confirmation from President Martin that these were the same letters that had made the situation "intolerable"; and Mr. Stone, the College Counsel, said that there had been "dozens" of such letters written to members of the administration. However, these other letters, if they existed, were not supplied to the *ad hoc* committee and, according to Mr. Stone, they were not introduced into evidence at the Board meeting.

In the view of the committee these letters are certainly unusual, peculiar, and eccentric; and they might well irritate the recipient. But if read in their entirety, not in brief excerpts, they do not seem essentially contumacious or derogatory. Rather, their eccentricity consists in their being so conciliatory, so fulsomely forgiving, and overwhelmingly friendly. Moreover, the committee could find no convincing connection between eccentric letters written in December, 1962, and the precipitate dismissal one year later.

2. The Difficulty with the Department Chairman

The committee could gather only sketchy and contradictory evidence on the charge that Professor Miesse could not work with her department chairman. President Martin told the Board of Regents, for example, that Professor Linderholm, head of the Business Administration Department, had requested the transfer of Professor Miesse in March of 1962; yet, before the *ad hoc* committee, Professor Linderholm said that she had not requested this transfer. She stated that "President Martin thought she [Professor Miesse] would do better elsewhere. I wasn't personally involved in this. I didn't kick her out or try to get rid of her. I was in no way responsible for removing her from Business Administration." Professor Linderholm did make it clear that she thought Professor Miesse acted too independently in departmental matters and that she considered her a poor teacher. In contrast, though, several of Professor Miesse's former colleagues (including the former Chairman of Business Administration), no longer employed at Amarillo College, were enthusiastic in their praise of Professor Miesse as "a creative and gifted teacher, liked by all the students." In summary, the evidence gathered by the committee, including that available on the tape recording of the Board meeting, did not substantiate the charge that she had had any critical difficulties with the Chairman of her department.

3. The Report to the Instructors' Association

So far as the committee was able to ascertain, President Martin first warned Professor Miesse that she was endangering her status on April 10, 1962, following her delivery of a report to the Instructors' Association. According to Professor Miesse, he later (May 4, 1962) stated that while the report had nothing to do with her reduced assignment and salary for the following academic year, she in fact had no right to prepare and present such a report, because it was contrary to his beliefs and practices.

Professor Miesse provided the *ad hoc* committee with a photostatic copy of what she identified as the carbon copy of the report she sent to President Martin (which President Martin would neither verify nor deny as authentic), but it was ascertained that no copy had been supplied by the Administration to the Board of Regents.

In the judgment of the committee, the report is altogether historical; it is quite impersonal and uncritical of anybody or anything. It is simply a history of various faculty organizations at Amarillo College. As for her alleged editorial comments in giving the report, Professor Miesse said that she made no critical comments. The faculty, she stated, were excited over a recent announcement that the Instructors' Association was to be abolished, and took so much time discussing that matter that she was unable to finish reading the report.

4. The Derogatory Remarks About Former President Ray

Much of the *ad hoc* committee's discussion with the Faculty Committee on Professional Relations and Standards was devoted to a farewell dinner party, in the spring of 1960, given by Professor Miesse when Professor Talbot, Chairman of the Department of Business Administration, had resigned. At this party Professor Miesse, acting as mistress of ceremonies, had apparently carried off a long series of jokes and humorous incidents at the expense of nearly all the faculty members present. According to the memory of every member of the Faculty Committee, it had been an embarrassing experience for everybody, it had all been in extremely poor taste, and everybody present (they emphasized "everybody") had been totally humiliated. This applied in particular, each remembered, to what were construed as her personal attacks on Dr. Ray, who was then President of Amarillo College. The efforts of the *ad hoc* committee to ascertain the specific nature of the remarks and jokes were fruitless; the Faculty Committee could only recall that "everyone" who attended the party had been embarrassed and humiliated. But when the *ad hoc* committee asked specifically if Professor Miesse's remarks had been off-color or indecent, the Faculty Committee responded immediately with a chorus of negatives: "Oh, no! She's not that kind of person!"

On the other hand, all four persons queried who were no longer on the faculty of the college—one of them the retired head of the Business Administration Department for whom the dinner was given—were unanimous in their memory that it had been a witty, amusing evening, marked by a kind of gridiron humor, and they could not recall anyone's being embarrassed in the slightest.

Dr. Ray's recollection of the evening, provided in a letter at the request of the *ad hoc* committee, confirmed the latter view. He remembered the event only as a pleasant farewell party for Professor Talbot, and concluded his letter by stating,

> I am confident, that, if I had been "thoroughly embarrassed" by her performance, I would be able to recall it much more completely than I now can. Indeed, I recall no embarrassment at all.

In summary, the *ad hoc* committee can only conclude that it found no valid substantive basis for the dismissal of Professor Miesse. There were indications of eccentric and nonconformist behavior, but, especially when judged on the basis of the evidence presented at the December 17 Board meeting, the charges brought by President Martin were in the committee's judgment, essentially unsubstantiated.

IV. CONCLUSIONS

The dismissal of Professor Miesse was in clear violation of her rights as a tenured member of the faculty of Amarillo College, both by the standards set forth in the *1940 Statement of Principles on Academic Freedom and Tenure* and by the regulations of the college itself. Further, there is no question in this instance that almost every fundamental aspect of due process was absent.

Under the protection of her tenure status, Professor Miesse should not have been dismissed without adequate cause established in accordance with recognized procedures of due process. While it is difficult without due process to make sound judgments on substantive issues, it is the conclusion of the *ad hoc* committee, on the basis of the evidence summarized in this report, that the charges brought against her, even if sustained, would not constitute adequate cause; and, in any event, that they were substantially unsupported.

The committee must note, in addition, its concern about the implications of this case for the present state of academic freedom and tenure at Amarillo College. As stated earlier in this report, both the Faculty Senate and the Instructors' Association. which were operative when President Martin assumed his office, were abolished soon after his arrival, and have not yet been replaced by any similar mechanism that could provide for the protection of faculty rights or meaningful faculty participation in the government of the institution. Then, Professor Miesse, a senior, tenured member of the faculty, was without due process or recourse placed on "probation" and reduced to part-time status and compensation. Eventually, she was summarily suspended in the middle of the school year. Finally, after an improper, nominal hearing, the Board of Regents dismissed Professor Miesse, abolished the Committee on Professional Relations and Standards, and eliminated those sections of the college regulations which had provided at least paper protection for the tenured faculty. This series of extreme actions violative of fundamental academic principles has done serious harm, the *ad hoc* committee believes, to the institution and has rendered insecure academic freedom and tenure at Amarillo College.

A final comment must be made about the Board of Regents and their role in this matter, for it is the conclusion of the *ad hoc* committee that once Professor Miesse had been suspended by the President, the Board felt that it had no choice but to support the President's decision. Many of the comments by the Board members on the tape recording of the hearing reflected an overriding concern for the necessity to achieve a smooth, harmonious operation of the college, even if this end could be attained only at great cost to an individual professor. Furthermore, the meeting seemed to be permeated by an ignorance of the proper nature of an institution of higher learning, which nurtures difference, rewards originality, and respects academic freedom.

This committee wishes to call to the attention of the Amarillo College Board of Regents, and to that institution's administration, the spirit of the State Legislature of Texas reflected in its recently articulated objectives for all higher education in the State in which it specifically includes the publicly supported junior colleges. Of particular relevance here was the Legislature's charge to the newly created Coordinating Board:

> To achieve excellence in ... higher education, the Board shall ... develop and recommend minimum standards for academic freedom, academic responsibility and tenure.

Moreover Governor Connally, at the initial meeting of this new Coordinating Board, emphasized that:

> For the first time, junior colleges under your direction became full partners in our total higher education endeavor. . . . The junior college Instructor .. . is certainly the equal of his fellow faculty members in four-year institutions and should be treated as such.

Until the Board of Regents and the Administration subscribe to those standards and that conception of the faculty at their institution, the principles of academic freedom and tenure—so clearly violated in the dismissal of Professor Miesse—cannot be secure at Amarillo College.

Kendall P. Cochran (Economics), North Texas State University, *Chairman*
Margaret Goodman-Malamuth (English), Long Beach City College
George G. Williams (English), Rice University
The Investigating Committee

Committee A on Academic Freedom and Tenure has by vote authorized publication of this report in the *AA UP Bulletin:*
Sanford H. Kadish (Law), University of California, Berkeley, *Chairman*
Members: Richard P. Adams (English), Tulane University; Bertram H. Davis (English), Washington Office, *ex officio;* David Fellman (Political Science), University of Wisconsin; William P. Fidler (English), Washington Office; C. William Heywood (History), Cornell College; William J. Kilgore (Philosophy), Baylor University; Spencer L. Kimball (Law), University of Michigan;

Walter P. Metzger (History), Columbia University; C. Dallas Sands (Law), University of Alabama; Victoria Schuck (Political Science), Mount Holyoke College.

THE MORALITY OF AFFLUENCE

A paper presented at the Southwestern Economics Association meeting, San Antonio, Texas, March 30, 1972.

COMMENTARY BY SUSAN DADRES

At a professional meeting, Cochran notes his pleasure at seeing a program about the moral relevance of economics and presents this paper in response to three others about affluence written by Stephen T. Worland, Peter L. Danner, and Thomas O. Nitsch. First, Cochran expresses confusion at the points made in Worland's paper, primarily because he does not relate with the natural tendencies which characterize Worland's paper. His specific objection to Worland's approach is that producing goods to satisfy consumer wants is not the only goal of an economic system; society must consider how production affects the environment, for example.

Cochran notes that Danner's paper focuses on the moral aspects associated with how people spend their money as their income increases. Cochran does not agree with Danner's viewpoint because it seems unnecessarily judgmental and arbitrary to designate certain activities or pursuits as morally inferior. For example, he asks "why is travel or education a more moral goal than an evening on the town?" Although Cochran shares Danner's concern that the mix of goods and services being produced is not ideal, he believes that the moral outrage applied to frivolous purchases is more the domain of preachers than of economists. Cochran also argues that Danner's claim that economists do not sufficiently encourage saving is gratuitous. Since Danner was writing at a time when the rate of savings was close to 8%, a rate that is very high by historical standards, he has some standing to take the position that economists of that era were not in fact trying to convince families to spend all they had. Today, at such low interest rates, there is little incentive for people to save.

Finally, Cochran demonstrates an appreciation for the original analysis presented in Nitsch's paper, focusing on the moral issues or responsibilities of affluence. Cochran agrees with Nitsch that the main responsibility of affluent individuals or nations is to provide for the economic well-being of those who are less fortunate. Nitsch also emphasized the wide disparities between the rich and the poor and the inordinate amount of economic and political power resulting from that disparity. These are themes that apply to our current situation, as evidenced by the writings of economists like Robert Reich and Paul Krugman.

Cochran concludes that the morality of affluence is different from the morality of scarcity which prevailed in Ricardo's time. In Ricardo's day, redistribution from those at the top to those at the bottom would simply have impoverished everyone. Today, the situation is different. Joseph Stiglitz has written extensively about U.S. inequality, which he argues is one of the reasons the economy has been sick. In a recent blog, Stiglitz puts forth a message that is in perfect harmony with Cochran's work. Stiglitz writes,

> The central message of my book, *The Price of Inequality*, is that all of us, rich and poor, are footing the bill for this yawning gap. And that this inequality is not inevitable. It is not, as Rich said yesterday, like the weather, something that just happens to us. It is not the result of the laws of nature or the laws of economics. Rather, it is something that we create, by our policies, by what we do.[3]

The timely message of Cochran's work is an urgent recommendation to stop accepting so-called laws of economics as immutable—government policies created the inequalities that plague us; now government policies must be used to right the wrongs and restore sanity to our economy.

---

[3]See http://www.alternet.org/print/economy/joe-stiglitz-people-who-break-rules-have-raked-huge-profits-and-wealth-and-its-sickening-our

THE MORALITY OF AFFLUENCE

I am personally and professionally pleased to see a program centered on the moral relevance of economics, for we economists are long overdue to return to our original heritage.

Economics was begat by a moral philosopher—one who was quietly outraged by the moral inequities and flaws of the then-existing system of production and distribution, and thus argued for a radical change in the way the resources should be allocated. It may not seem so revolutionary and radical to us today, but it was in his time. And it is time, once again, to reassert a basic moral position. This is what these three papers have done and it is the central question to which I address these remarks.

But first I would like to correct what seems to me to be a minor confusion on Professor Worland's part. This confusion, common to most readers of Smith, is concerned with the Smithian analysis of productive versus unproductive labor. While Smith did identify productive labor as the production of things, and unproductive labor as being merely services, this was not the central point he was trying to make. What he was in fact urging was the rather revolutionary idea that if the increasing national revenue was distributed to the entrepreneurs and the capitalists, they would invest in factories and ships, and the result would be more production for more consumption. In other words, there would be more economic growth than would be the case if the expanding revenue were distributed to the traditional landed aristocracy, for they would spend it "unproductively" on servants and dancing girls. I know that most economists chide Smith for his naive distinction between productive and unproductive labor, since we "know" that all labor is productive. But such chiding really, in fact, fails to understand the true significance that Smith was trying to draw between the importance of economic growth versus the sterile frivolity of the idle aristocracy.

Now to the central theme, the morality of affluence. And I must confess to some degree of confusion upon reading Professor Worland's paper. This confusion probably comes from Worland's philosophic leanings toward such eternal verities as "a natural terminus," "natural tendencies," "man and nature," "a natural milieu," or a "cosmic destiny," "a cosmological process," "cosmic developments," "a cosmic frame of reference," etc. Essentially, I am not much of a Natural Law man, myself. And thus I find it confusing.

As I understand it, however, the essential structure of the paper would seem to be that in the past we have had a lot of economic growth because we have had an ideology which justifies and rationalizes that growth. This ideology stems from Adam Smith's belief that consumption is the end of all economic activity. And this, in turn, derives from Saint Thomas Aquinas' position that man is superior, and all the rest of nature is inferior, and therefore man is not committing a mortal sin when he subjugates nature to his selfish ends. Economic growth could therefore have been morally good, because it could have permitted the cultural, moral, and intellectual perfection of mankind. But somehow we got sidetracked. By not keeping Smith's dictum in the forefront, we have been excessively preoccupied with economic growth. And the untoward and devastating results have been not a moral upgrading, but environmental destruction, increasing social tensions, and widespread personality derangements.

Here, however, is where I think the essential dilemma of Professor Worland's paper emerges. As I understand it, he wants to return to the "humanistic dimension" of Adam Smith which was that consumption is the end of production. If, however, we are to achieve this, we would have to have more production in order to have more consumption, so that economic growth does become the sine qua non of the expansion of the humanistic dimension—that is, the more production we have, the more growth; but with the more growth we have, the result is more destruction of the environment, more social tensions and more personality derangements—exactly the problems with which Professor Worland is correctly concerned.

I think the basic error that Worland commits is in assuming that a process does, in fact, have an end: either consumption or production. A process, however, does not have an end in any ideological sense. That is, consumption is indeed an end of production, but, as Marx correctly pointed out, it is also the means of production. Thus, in an unfolding or evolutionary productive process, one stage does alter and define the next—or conversely, each stage is an outgrowth of the preceding. But there is no end, in any meaningful or useable sense of the word. This of course is the point that John Dewey was making decades ago when he tried to distinguish for us the inner logic of an evolutionary, unfolding, sequential process. There is in such a process a means-end continuum, and the direction of it may be altered if we understand the logic of the process. But the logic is not some transcendental end.

Upon further reflection, I suspect that the only real solution, given Worland's philosophic framework, would be to abolish money, to abolish markets, to raze our technological foundations, and go back to some more simplistic, rural, Garden of Eden, where goods are produced for immediate and direct consumption, where there is dignity in simple, direct labor, and where there is personal contact between the laborer and the productive process. And, where the plague, and smallpox, and polio, and constant unrelenting hunger are man's daily companions. I personally think this is no solution; instead, we will have to find ways or techniques for directing this evolutionary, unfolding, sequential, consumption-production-consumption process, and making more humane and moral uses of what we have. I shall return to this point later.

The moral issue with which Danner is concerned is that as our gross national product has increased, the wants of man have increased at an even faster rate. This poses a threat to society because it raises several serious moral questions: the most important one is that individuals spend their money foolishly as they move up the income scale. Foolish and frivolous luxuries become conveniences, which then become necessities. What was profligate and wanton becomes routine and dull. What we need to do is to learn to control our licentious wants, and to work for greater moderation and more justice.

To do this, urges Danner, we must first increase our rate of savings, second, we must adopt a new psychology which stresses contentment with the discontent of the status quo. And third, better than merely suppressing wants, we should learn to improve, to enlarge and to elevate them. For Danner, this would mean "a home, meaningful travel, more education," which is much to be preferred to a night on the town at $30.00 a night. For that is only debauchery; and further, after a year of it, what do you have to show for the $1500?

I would like to take issue with Danner on a couple of these points. First, why is travel or education a more moral goal than an evening on the town? As a matter of fact, if the problem is one of increasing, insatiable wants, then I would argue that nights on the town are probably very satiable, while the demand for travel is infinitely insatiable. But if so, then how does this solve the moral dilemma of what to do with an increasing gross national product? I would suggest there is precious little we can do, because this is defining the dilemma in terms which would not admit a solution: To say that one kind of personal satisfaction is better than another.

If the moral problem is the one which Danner defines it as being, namely, the consequences of affluence corrupting individual values, then probably the only real solution is, again, to return to some simplistic society. Danner seems to approve better education, better health, warmer houses in the winter, cooler houses in the summer, a decreased working week, longer life expectancy, etc., but disapproves of the frivolous, the trivia, the night on the town. But this does no more than reflect a personal scale of values as to what is good and what is not good. I strongly suspect the paper is largely an exposition of an *a priori* assumption: that frivolity and bourgeois tastes are a moral abomination and should be abolished for a simpler, plebian life. Otherwise, how could one be so seriously troubled by the statistics which indicated that, while income doubled in the fifties, some spending increased faster than others, and the specific crime was that fun spending rose fastest of all. Indeed, people in the higher income groups even spend more on fun than they do on food! This sense of outrage may befit a preacher, or an irate and frustrated parent's view of how a child's allowance is spent, but it hardly comes to grips with the moral dilemma of affluence for society.

This is not to argue that the present allocation of resources to the production of goods and services is ideal, or perfect, or that it could not be improved upon. I, too, share a deep moral concern for what we do with our ability to produce, and would prefer to see more collective goods—more parks, more schools, better education, less pollution, etc.—than the present allocation. And I shall return to this point later.

But one further technical point on this paper: Danner's inferences on savings, and his allegations regarding the influence of economists on the rate of saving, are both incorrect. That is, during the decade of the fifties personal saving did decrease, but this was reversed in the sixties: 1950 6.3 %, 1955 5.7%, 1960 4.9%, 1965 6.0%, 1970 7.3% [Statistical Abstract, p.310], and for 1972 the current rate is probably close to 8%. His assertion that economists have, for several decades, tended to "downplay saving since it reduced spending and therefore income," is at best, gratuitous. An increase in saving does decrease spending, but that in itself is neither bad nor good. I suspect most economists today would encourage a decrease in the rate of savings in order to stimulate a rather laggard, stagnant, economy.

The dilemma is that affluence has, in fact, done much good, and this Danner readily admits: shorter working hours, more leisure time, better health, a level of living for the vast majority of people that even Louis XIV could not imagine. But the other horn of the dilemma is that individuals do not know how to spend their income wisely. As they expand their want-satisfying craze they spend still more badly and unwisely in a never ending spiraling cycle of moral deprivation. I suggest, however, that this really is not the issue. The issue for an economy of abundance is how to ensure the survival and growth of society as a whole. And to examine this dimension I turn to Professor Nitsch's paper.

One of my serious objections to both of the preceding papers, is that they are ultimately based upon what Saint Thomas Aquinas, or his latter day spokesman, Adam Smith, had to say. I think it is a proper time for economists to assert that their special knowledge leads to a moral concern for today's problems. Problems which are markedly, distinctly, different from the turnip patch of Smith or Ricardo.

This, I believe, is one of the stronger points in Professor Nitsch's paper. He brings us his analysis of what he considers to be the moral issues of an affluent society, namely, what are we to do with this vast and almost incomprehensible ability to produce? Or, what are the moral issues or responsibilities of affluence?

Nitsch, I believe, correctly identifies the two critical areas of concern. That is, the moral issue of affluence is not a night on the town versus appropriate summer travel, nor is it the obfuscations of Saint Thomas Aquinas on what is the proper end of production. The moral issue is, as Nitsch perceives it, the responsibility of the affluent industrial nations of the world for the economic betterment of the poor, hungry, illiterate masses of the world. Ultimately, what Nitsch is saying, is that we are our brother's keepers, and that we should accept the responsibility for this moralist position. For we can—if we wish—provide for the economic well-being of all men. All men today in the United States, tomorrow in Western Europe, Japan and the Soviet Union. The day after tomorrow for the rest of the world. But only if we, collectively, will it. And that is the moral responsibility of affluence.

Another equally relevant moral question was also raised by Professor Nitsch: the wide disparity in the distribution of income and wealth between those at the very top and those at the very bottom, and the inordinate economic and political power that results from that disparity. That is, the power not only to direct the allocation of resources to satisfy the personal whims of those at the top, but also the power to control the press, the politicians, and the pulpit. This, I believe, is the critical moral issue—not having a night on the town, rather than reading a good book. More importantly, it is the morality of affluence, not the morality of the scarcity of Ricardo. And it assumes that economic growth will continue and that this is good.

The question then is one of the alternatives available to us in the future: we can simply let the future just happen, which means that those individuals and countries at the bottom of the income pile will remain inescapably trapped there. Or, economists can explain the future growth of the GNP in terms of what we can do to improve the economic well-being of these two groups.

With Professor Nitsch, I believe that man has some control over his destiny, but only that of tomorrow. Today and yesterday are irretrievably gone, but the future can be of our own making. If we were to take a purposeful, a moral look at the future, and ask ourselves, ask our generation, "what do we want to do with it," we will have meaningful alternatives available to us. And that is the moral imperative for we of the economics profession. The only alternative for us, is one of laissez-faire indifference. And the consequence of that moral position, for laissez-faire indifference is equally a moral position, will be that meaningful alternatives are not made available and known to society. The result will be an increasing disparity between the have and have-not nations and the have and have-not citizens. And this kind of instability cannot, I believe, long endure.

As Nitsch amply demonstrates, if we had the will, if we had the commitment, the productive potential is available to make meaningful economic upgrading of the have-not nations. And the same alternative is available to us domestically—if we will it. That is, in past decades or generations when one suggested that the total income should be redistributed from those at the top to those at the bottom, the defenders of the status quo were careful to point out that this could do no good, that there simply was not enough at the top to make a meaningful difference to those at the bottom. All this would do, as Ricardo once pointed out, would be to impoverish everybody. This was true in Ricardo's day, for there was so little to go around. An economy of scarcity meant very simply that the vast majority of people had to starve, that only a very few could, in fact, live at the top of the hill. But that is no longer even remotely true. There is no economic reason for any citizen of the United States today to be poor. We could, for example, double the income of the bottom 20 of the economic pile by cutting the top 20 income by only a tenth.

That is, the top fifth would have to give up but one-tenth of their income in order to double the income of the bottom fifth, or we could raise the bottom fifth to a minimum family income of $3900 by cutting the income of the top fifth by a mere 5. This means that the top fifth would have to reduce their share of the total economic pie, from 42 to about 40, but this would have a meaningful, measurable impact on those at the bottom of the economic pile.

To cite another statistic as to what could be available. If we extrapolate a rather conservative rate of growth in the current gross national product and a conservative estimate of the rate of population growth over the next decade, we will see a sizeable socially disposable surplus accumulate. That is, an increasing amount of productive capacity over and above our present per capita standard of living. In one short decade this would accumulate to something over one and a half trillion dollars of productive capacity, in terms of today's prices. I stress again, this productive capacity is available over and above out present per capita standard of living—available to do with as society sees fit. The point is that it is the moral responsibility of the economist to make such alternatives known, so that society can learn to accept the moral responsibility of affluence, just as Smith and Ricardo explained the moral responsibility of scarcity.

Of far more pressing concern, however, than the frivolous nature of middle-income spending is the enormous political, social-economic, power of the wealthy, omnipotent corporate conglomerates and the chosen few who control them. The recent revelations of the chumminess between I.T.T. and the Justice Department is a current example. But what we economists should stress is that the I.T.T. did not enter into these shady negotiations; it was not the Justice Department that responded. It was individuals—real live persons. And that kind of power, held in carte blanche, virtually untouchable by any kind of countervailing power, is the kind of moral-economic issue of affluence that should frighten us economists. But instead we concentrate on explaining long-run equilibrium in a perfectly competitive market. And that, I stress, is as amorally irresponsible as the games I.T.T. and the Justice Department played, or the tête-à-tête of Frank Sharp and Gus Mutscher.

WHY A SOCIAL ECONOMICS?

Presidential address before the annual meeting of the Association for Social Economics, Chicago,
August 30, 1978, published in *Review of Social Economy*,
vol. XXXVII(1) (April 1979), pp. 121-132

COMMENTARY BY SUSAN DADRES

In this essay, Cochran reflects on why there is a need for an organization like the Association of Social Economics. He suggests that the identifying badge of social economics is "an active concern for current socio-economic problems that arise from the inadequacies of the *status quo*, and the use of analysis, not to rationalize the *status quo*, but to find practical alternatives to it." Returning to a critical time in the history of economic thought, when the conflicting viewpoints of David Ricardo and Robert Malthus provided an opportunity for economists to choose an alternative approach, Cochran identifies the point when mainstream economics and social economics began to follow different paths.

Malthus focused on short-run issues and the way things were, while Ricardo argued for emphasizing the permanent state of things, which corresponds to a more long-run view. The decision to follow Ricardo's lead for the next 100 years was a regrettable choice in Cochran's view, because following Malthus would have meant "accounting for things as they are, of explaining the causes and consequences of real world problems, and finding alternatives to those problems." Cochran's analysis of the differences in the issues of this time period, in the evolution of economics provides tremendous insights and was featured in his teaching as well as his writing.

This Presidential address also provides an insightful accounting of the Keynesian Revolution and the major economic events that occurred from the 1930's through the 1970's. In his consideration of modern economic problems, Cochran points out some of the difficulties associated with measuring unemployment and setting a proper benchmark for an acceptable (natural) level of unemployment due to demographic changes and issues related to race and gender. Next, he takes up the issues of inflation and monetary policy, concluding that a major reason for problems was market concentration. The last topic of analysis in the paper is poverty and inequality, and here Cochran provides valuable insights about how economists should shape social values as opposed to allowing the marketplace to be the final arbiter.

The major goal of this paper is to help turn economics into a socially relevant discipline, returning to the meaningful course started by Adam Smith and continued by Robert Malthus. He asks why economists must concentrate on explaining the behavior of profit-maximizing firms under various assumed market conditions in a world dominated by powerful multinational corporations.

Cochran's final note has to do with expectations. Economists should find ways to reduce poverty and inequality, but should not expect to completely eliminate them. A recent article in The *Dallas Morning News*, titled "Richest 1% Earn Biggest Share of Income Since '20s," demonstrates that the pendulum has swung too far in favor of income inequality, so the time has come for economists to find effective ways to change this dangerous trend. Robert Reich's movie, *Inequality for All*, is an excellent step in this direction because the film portrays Professor Reich teaching college students about poverty and helps the viewer understand the many challenges facing low-wage workers.

References

Dallas Morning News, September 11, 2013, page 1A.
Inequality for All, documentary by Robert Reich, 2013.

WHY A SOCIAL ECONOMICS?[4]

This essay is largely reflective. It is an attempt on my part to answer the question, why an organization called the Association for Social Economics exists. When it was originally founded as the Catholic Economic Society, the rationale for its existence was obvious. But why a Social Economics? What differentiates us from the AEA? In a recent issue of the *Review of Social Economy*, we were offered several differing insights into this question. This paper, then, is but another attempt in that direction: to find the identifying badge of social economics. I believe that identifying badge should be an active concern for current socio-economic problems that arise from the inadequacies of the status quo, and the use of analysis, not to rationalize the status quo, but to find practical alternatives to it.

Thus the first social economist was Adam Smith. His monumental work is clearly characterized by what I believe should be our identifying badge: he identified an immediate socio-economic problem that stemmed from a defect in the status quo, and he offered an alternative to correct that defect. *Laissez faire* was his alternative for the future.

As a method of social inquiry, this was an excellent beginning. Unfortunately, it was only a beginning, for early in our evolution toward becoming a meaningful socially-oriented discipline, we came to a major fork in the road. While I believe we took the wrong one, the alternatives were clearly and succinctly presented to us by those two early giants, Robert Malthus and David Ricardo.

---

[4]Presidential address before the annual meeting of The Association for Social Economics, Chicago, August 30, 1978. I wish to thank Dr. Mona Hersh-Cochran and Dr. William M. Dugger for their many helpful comments and suggestions on an earlier draft of this paper.

Malthus, deeply concerned with the state of depression and unemployment following the prosperity of the Napoleonic Wars pointed in one direction when he said, "The first business of philosophy is to account for things as they are; and till our theories will do this, they ought not be the ground for any practical conclusion…" (Malthus, p. 8.). Dissenting from this pragmatic point of view, Ricardo urged instead that we should "put these immediate and temporary effects quite aside, and fix our whole attention on the permanent state of things." (Ricardo 1810-1823, p. 127).

What a wiser and richer world we could have developed had we followed the lead of Malthus—of accounting for things as they are, of explaining the causes and consequences of real world problems, and finding alternatives to those problems. But instead, we followed Ricardo and began the search for equilibrium, for long-run principles and universal laws, always under the protection of *Ceteris Paribus*.

Thus the basic framework for economic analysis was set for the next hundred years. There would be refinements in value theory following the attack by Marx; Marshall would clarify the influence of time, but nothing of any significance happened to our discipline, at least not to the mainstream. We were committed to finding and elaborating upon the long-run principles and universal laws that regulate supply and demand in a free competitive market. But collectively, we economists showed little concern for what was happening in the real world.

And, having accepted Say's Law of Markets, we were equally committed to the conclusion that business cycles were just that: "cycles." They had their natural ups and downs, but they were self-correcting. When a downturn did occur, it would bottom out and recovery would follow as surely as spring follows winter.

Then came the depression of the 1930's. Tragically, there was nothing we could do or say. Our training had not prepared us to account for things as they are. Our basic assumptions told us such downturns were self-correcting and, President Hoover, as bewildered by the ominous turn of events as the economists, correctly translated this as "prosperity is just around the corner."

And so the Great Depression grew worse by the day, the week, and the year. The prosperity that was supposed to be just around the corner, never materialized. The GNP fell by half, while unemployment reached a staggering 25%, maybe 30% or 35%; banks closed and soup lines lengthened. Then, in 1936 another revolutionary book, a major milestone in the evolution of economic thought, appeared, the *General Theory*, by Keynes.

Faced with the obvious and intractable fact of a devastating and demoralizing depression, and the inability of Classical Theory to provide even a hint of what to do, Keynes provided new insights into the economic process. He developed a theory that would try "to account for things as they are." In so doing he became another important social economist.

While there have been dozens who have helped to define and develop Social Economics, most of us would agree that no more than a half dozen or so are really important. And while your list of a half dozen might differ slightly from mine, we would all include Smith and Keynes.

I believe these two loom so very large because of their impact on the social orientation of our discipline. Each began with a genuine concern for things as they are, that is with a socio-economic problem arising from the inadequacies of the status quo, and presented an alternative to that status quo.

Thus Smith recognized the inadequacy, the irrelevancy if you will, of mercantilist regulation for the emerging needs of an expanding bourgeois dominated commercial society. He then demonstrated the superiority of a system of "perfect liberty" for meeting those social needs.

And Keynes recognized the inadequacy, indeed the irrelevancy, of economic theory for the staggering problems of the depression. He then developed an alternative set of assumptions and theories to solve the then critical problem of mass unemployment.

The pressing socio-economic problems of today must be inflation, unemployment, and the inequitable distribution of income that is generated in the private sector of the economy. Traditional economic analysis offers few solutions to these problems.

For example: the Phillips curve as rationalization for the real cost of inflation or unemployment is simply no longer valid. Its entire validity depended on the supposition that a stable and inverse relationship existed between price and employment levels, because each was assumed to be a function of aggregate demand. This lesson was of course the great triumph of the Keynesian revolution: the utter simplicity of the idea that all macro problems stemmed from a deficiency or an excess of aggregate demand. Thus, either prices or employment could be regulated by close attention (some called it fine tuning) to tax rates, government spending and transfer payments and supportive monetary policy. Economists of all political persuasions could support some mix of these prescriptions. Friedman and Heller might differ, but only about the details.

However, policies based upon these premises have failed to achieve either an overall reduction in inflation or a noticeable decrease in unemployment.

The reason is abundantly clear. Compensatory fiscal and monetary policy evolved from a set of assumptions and premises valid for the 1930's. They may also have been briefly valid during President Kennedy's visit to Camelot. But no longer. The simplistic aggregate demand theory no longer suffices as an explanation of the price inflation we have experienced since the early 1970's, nor of the stubbornness of the high levels of unemployment since that time. If we continue following the guidelines laid down by mainstream analysis, we will continue wandering through the shifting dunes of the desert without compass or map.

As far as public policy is concerned, that is about the sum total of our knowledge in 1978. Except for the St. Louis Fed., we seem to assume that unemployment stems from a deficiency in total spending, and that inflation is a result of too much spending. And that produces our dilemma: two concurrent problems with contradictory solutions. For example: early in 1978, President Carter's economic advisors were urging a $25 billion tax cut to bring unemployment down from the then current 7. Later this spring they changed their minds and urged that this cut be postponed because of the kindling fears of inflation. And according to *Time*, President Carter said that he "might just as well have listened to a fortune teller in Americus, Georgia, as to his economic advisors." (*Time,* p. 65.)

But if our current high and sticky levels of unemployment are not due to a deficiency of aggregate demand, then such tricks are not going to work. That is, with tax cuts we can increase the demand for washing machines or autos or new clothing, or whatever. But if the core problem is one of underemployment, where those entering the job market lack the market-defined skills (both mechanical and social) to find employment among existing job opportunities, then they are unemployed and unemployable, as defined by the private sector of the market, and no realistic level of tax cutting will create jobs for them.

Thus while unemployment today is much too high, it is not due to a deficiency of aggregate demand. To the contrary, spending for everything appears to be at record levels. The problem begins with the yardstick we use for measuring unemployment. We try to measure an expanding and changing universe, the labor force, but with a fixed yardstick.

Since the 1930's we have defined and measured unemployment as the percent of the labor force not at work but able and actively seeking work. Now so long as the labor force remained fairly homogeneous, that is, white, male, adult,—then the per cent that is unemployed tells us a great deal about the current condition of the economy. But drastic and far-reaching changes have been taking place as millions of teenagers and women abandoned traditional roles and entered the labor force. And as they did, traditional assumptions about the homogeneity of the labor force come to be less than useful.

For example, between 1965 and 1975, while the number of persons actually at work increased by over 13 million, or a whopping 19% of the labor force, those actively seeking work, grew by over 18 million, or an even larger 25. One of the main factors accounting for this increase was a shift in the composition of the labor force. The market could not readily absorb this new influx of unskilled labor, therefore the rate of unemployment increased. But neither tax cuts nor increased government spending could create jobs for these new entrants, because the assumptions of the 1930's no longer described the realities of the 1970's. Accordingly, if we want to do something about alleviating the problem of unemployment, we will first have to change some of our assumptions about aggregate demand, about the work ethic, about woman's place in the home, about training and retraining programs, about the seemingly insoluble unemployment problems of the inner city black ghetto. There, midst overall prosperity elsewhere, remains that seemingly bottomless residue that Gunnar Myrdal termed the "underclass," those rejected as not needed, as nonemployable. (*Newsweek*, p. 22.) There in the crumbling, decaying inner city, unemployment, or better nonemployment, is the norm for the black teenager. While unemployment nationwide has receded to something under 6%, it remains today an intractable 40% for the black teenager in the city slums. This estimate of 40% understates the true depths of the *nonemployment* problem since many of these youths remove themselves from the labor force by no longer actively looking for work. They are then not part of the unemployed statistic. They are simply nonemployed. As the black psychiatrist Alvin Poussaint put it, "A lot of black kids simply feel they don't count, and they don't. In terms of what makes this society run, they're expendable." (Quoted in Ibid.)

Unemployment there remains virtually untouched by the healing balm of the widespread recovery in the private sector of the market that lies beyond the walls of the ghetto. Henri Pirenne once pointed out that as the newly emerging commercial economy of the middle ages grew up outside the walls of feudalism, so feudalism itself remained largely untouched by that market economy. Likewise, as the prosperity of the last decade has grown up outside the walls of the ghetto, so has the ghetto and the poverty that it spawns and nourishes remained untouched and if left alone, the conditions that define life as a ghetto will inevitably reproduce themselves into the next generation and beyond. Thus of the black youth coming of age today, over half have no legitimate father, 40% live in a household with no male head, 30% are on welfare. They are rejected by the labor market as expendable, in part at least because they do not even know how to dress for a job interview, or how to fill out an application blank to secure that interview, or even to get to that interview on time. The alarm clock syndrome is simply not a part of the ghetto. Inescapably then, a large portion emulate the obvious patterns of social behavior: crime and hustling, pimping and prostitution, drugs and petty rackets. External demand for the increasing output of the private enterprise market sector leaves this quagmire untouched and untouchable.

But rather than admit final defeat, as social economists we bear some responsibility for finding a viable alternative. Since the nonemployment of the ghetto youth and the crumbling ghetto itself are but opposite sides of the same coin, why not a joint cooperative effort to eliminate them in tandem? Why not another Civilian Conservation Corps. This innovation of the early New Deal put the nonemployed youth to work rebuilding the forests and the rivers. But, today's greater need is to rebuild the inner city.

Since most of the ugliness and squalor of the ghetto stems from its physical deterioration, a good beginning would be the rebuilding of that inner core by the nonemployed residents of that inner core.

The regular cadre of skilled trade union members are today too busy building offices, apartments and residential housing. Unemployment there is at an all time low, still they keep their doors closed to the very illiterate, unskilled, black teenager we are concerned with. But, with minimal supervision by retired carpenters, bricklayers, plumbers, etc., maybe we could start rebuilding the inner cities as an on-the-job training program. And like the CCC of an earlier era, we would begin by razing an inner city block and then as a very next step erect a young person's hostel: a campground right in the middle of the inner city. A dormitory first, a recreation building later. There the youth involved would live, eat, socialize; there they would learn the habits and mores of the working world: learn to get to work on time, maybe even to save for a rainy day.

This inevitably sounds wistful and fuzzy and difficult to achieve. But we must begin somewhere, for time is running out. As Myrdal warned us 10 years ago, “We must create out of this underclass, or their children at least, human beings who fit into modern America, who are needed, who are productive, who have a value" to society and to themselves. Perhaps by learning the rudiments of a productive trade and the rudimentary social skills required to enter that trade as an active member of the labor force, we could give a fortunate few a sense of order and self esteem, a sense of hope for the future as they take their first exploratory steps out of the ghetto.

But such an experiment will never happen on its own. There are no self-generating forces in the market to bring about this kind of reform.

Who then should take the lead in expressing an increasing concern for such problems, if not a social economist? Our responsibility is not merely to explain the automatic workings of a price mechanism to allocate resources in the most efficient manner possible, not merely to illustrate how aggregate demand determines the aggregate level of employment and output. It is much, much more: we must assume some responsibility to help society identify its socio-economic problems, and to suggest alternatives to those problems inherited with the maintenance of the status quo. A Civilian Conservation Corps is but one possible alternative to that status quo. If tried, it might provide a workable alternative. In the meantime, we must demonstrate a genuine social concern for all forms of structural unemployment: for the needs of the middle-aged woman as well as those of the black city youth and the rural unemployed, for all of the new candidates for the labor force who have no readily marketable skills. These will demand considerably more attention and leadership than a debate over a tax cut to consumers versus corporations. Since unemployment and nonemployment and underemployment are not caused by a single factor, their cure or alleviation will necessarily be multifaceted, complex and time-consuming.

Likewise, a single cure for inflation is clearly not readily available, because the causes are many and complex. While there is not a single cause, it is perfectly clear that a considerable portion of our recent inflation can be traced directly and indirectly to the world-wide catastrophic shortages during the early 1970's. For four or five consecutive years, we experienced extremes in weather conditions, ranging from devastating floods to devastating droughts, some engineered by nature, others by the OPEC participants. And unfortunately there is nothing we economists can offer in the way of advice for that kind of inflation. Tight money can neither produce more oil, nor reduce the demand for it. But world commodity agreements and storage programs could divert disastrous shortages.

But there are other sources of inflation and some of these can be dealt with if we are willing to modify some of our basic assumptions, such as the right of a corporation or trade union to be treated as a private individual. It made perfectly good sense, for Smith to believe in 1776, that wise social policy would be to let employer and employee settle wage and resulting price decisions in private, without any public supervision or interference, even though he recognized that "people of the same trade seldom meet together even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." (Smith, p. 128.) But Smith was equally confident that in a world of perfect liberty where each could choose his occupation, such conspiracy could result only in the invitation for other businessmen to enter the market and thus break up the conspiracy. We may be unable to break up a conspiracy among the OPEC countries, but we are not helpless at home.

When the United Steel Workers negotiate with the Lawyers of U.S. Steel on behalf of the rest of the steel industry, we need not rely on Smith's butcher, brewer, baker model. I believe, as did Smith, that if left alone, they will conspire to their mutual advantage and to my ultimate disadvantage. This is why I insist that we should sit at that bargaining table as equal partners in the wage-price decision-making process. We must thus substitute some form of public for private administration, that is, for the administration of wages and prices by private parties for their mutual aggrandizement. If the public welfare is to be served, if inflation is to be brought under some degree of social control, then we must limit the private discretionary powers vested in large oligopolies and trade unions. Only when private interests that are in strategic positions of power and authority are limited in the exercise of that private authority, can we bring inflation under some degree of social control. (Lekachman, p. 30.)

There remains the problem of finding measures that will ensure a more equitable distribution of income. This represents a relatively new challenge because through most of man's history, poverty has been an inescapable fact for the vast majority who remained at the bottom of the economic hierarchy, always cold, hungry, oppressed. Ricardo referred to them as a "race" of workers. (Ricardo, 1817, p. 51.)It seemed quite clear, self-evident, to any reasonable observer that the masses were "by nature" lazy, shiftless, indolent. Exploitation and misery, poverty; real, base, grinding poverty, were the inescapable facts of economic life. (Tugwell, p. 442.)

But scarcity and low productivity are no longer our pressing economic problems. There is no longer any economic reason for poverty. There may be other rationalizations for it, but I am not aware of any sound economic reasons. If this position is accepted, then we must rely on devices other than market-defined income to distribute the claims to current production.

Since about the time of Adam Smith and Thomas Jefferson, we have trusted the so-called free market to make the most important economic decisions. Among the more important, was the attempt of the market to equate the individual's right to consumption with his contribution to production. This is what the marginal productivity theories of distribution were trying to rationalize.

And these theories were probably a close approximation to what went on in the real world as we remained a nation of individual farmers, craftsmen and shopkeepers. But many forces have long since destroyed that simple world. The trust and the holding company on the one side, coupled with the machine process and technological development on the other, have homogenized this productive process. How does one measure the value of the output of the individual worker on the assembly line? Or, how many dividends should the stockholder receive when the savings for capital expansion are coming from the retained earnings of the corporation? And said earnings are high because the company can dictate the price the consumer will pay, and Congress provides for accelerated tax write-offs! (Cochran, 1968, p. 67.)

We should also recognize that today's distribution of wealth and income stem not from an egalitarian and economically efficient public policy of some golden era of the past, but from yesterday's power struggles that variously took the form of enslavement, piracy, bribery, strike breaking, cheating, lying, stealing, and so forth. (Martin, p. 275.) And since today's power and prestige are in large part a legacy of that yesteryear, we need not define market determined income as representing the value of the marginal product of a homogeneous labor market. Income receipts today represent power and prestige, and little else. This is why anyone in a bottleneck position, whether defined by the scarcity of a natural resource or the contrived scarcity of a licensed profession, is in a position to demand a substantial share of the current output, and to increase that share continuously to keep ahead of inflation.

Since we are clearly an affluent society, and since actual productivity has little relationship to money income, it seems inevitable that we should move toward the adoption of some form of guaranteed annual income. What we call it is of little consequence: a negative income tax or a family maintenance scheme. The essential guiding principle would be that partaking of today's productive output is to be regarded as a fundamental right of being a member of society. In other words, each *being* is entitled to a basic share of current output. This would be true not only for whooping cranes and other endangered species, but for human beings as well.

Above this base we could distribute additional shares for special services to society: to Warren Beatty for directing, acting in, and producing motion pictures, to college professors for professing, to the Rolling Stones for producing what the younger generation defines as music, or what have you. (Cochran, 1968, p. 65)

But, the simple basic socio-economic fact would be a move toward society's recognition that an adequate living would be made available to everybody as a social right. Only then could we truly begin to understand the social significance of abundance. That is, the social significance of abundance lies not in adding color TV to every home, or two cars to every garage, but in the fact that the dullness and stolidity, the lethargy of Ricardo's "race" of workers are being eliminated.

The social significance of removing poverty as an all pervasive fact of life is to be found in the efficiency and vitality of those who have made a clean break from the poverty trap, in the fact that most of today's children are able to grow up in healthy environments, that they go to school, rather than to the mines and mills, that hookworm and malnutrition no longer sap their every ounce of vitality.

Overall, I am very optimistic about our long-run future. In the last analysis, ours is an evolving society that grows through continuous experimentation. In our field of social economics, successful experimentation requires first that we abandon the search for universal laws and final truths, and commit ourselves to that "first business" of Malthus. And that "first business" means simply that we must continuously re-examine our assumptions, to account for things as they are.

Thus it seems to me that the essential role of social economists, the genuine identifying badge that distinguishes them from the others, is their basic rejection of the marketplace as the final arbiter of social values, and their acceptance of some responsibility to help define and develop those social values. This is what could be truly social about social economics. This (Lerner, would be the ultimate consequence of what Abba Lerner described as the, shift from a discipline engaged in "explaining the working of the price mechanism ... into a discipline that concentrates on guiding the economic authorities" toward social goals. p. 133.)

If we will make that major shift, if we will turn economics into a socially relevant discipline, then we can put it back on the meaningful course chartered for us by Smith and Keynes—but a course from which the discipline has strayed in recent decades. Certainly any economist can explain, with great theoretical accuracy, the profit-sharing behavior of the individual firm under certain assumed market-structured conditions. But what relevancy does this explanation have for the powerful multinational corporation's devotion to chicane, fraud, misrepresentation and political manipulation? (Robinson, p. 4.)

As far as conventional economics is concerned, such behavioral questions simply do not exist. But if social economics has any rationale for its separate and distinct existence, it must surely be to raise just such questions about social means and social ends. For it is only by raising such new and troublesome questions that economic theory and policy can be made as meaningful and relevant to our times, as the economic theories of Smith and Keynes were for theirs.

A reconstructed social economics would then have as its guiding principle the belief that economic theory is concentrated thought and analysis directed toward ameliorating contemporary socio-economic problems. It is not merely the deduction of inevitable conclusions from given premises, but the finding of acceptable and meaningful alternatives to contemporary problems.

What I am emphasizing is that as a socially responsible economist, it is my moral duty, indeed my social responsibility, to assume an openly normative, value-directed, position of leadership to define what I see as a better economic life: stable prices, a reduction of poverty, an increase in employment opportunities, an upgrading of the skills of those trying to enter the labor force for the first time, and a more equitable distribution of income. And I would stress that these or similar priorities that you might emphasize should be seen only as tentative and experimental. Thus, any program, for example a CCC for urban youth is only an instrument for upgrading the social and trade skills of a particular depressed minority. It should not be viewed as a panacea for much of anything, but simply as one attempt to relieve the pressures building up in one stressful situation. In the same experimental sense, we would seek not the elimination of poverty, but the reduction of it, not a perfect distribution of income but simply a more equitable one. And so on.

If social goals are thus seen as transitory and experimental, and if the task of the social economist is to bring trained intelligence to analyze and to find solutions for these problems, then like the evolving social organism which it investigates, the science of social economics will also be experimental and evolutionary. Then, rather than merely maintaining and rationalizing the status quo, we will help open new vistas into the future.

References

Cochran, Kendall P. "Tax Implications," in Robert Theobald, Editor, *Committed Spending: A Route to Economic Security*, Garden City: Doubleday & Company, 1968, pp. 65–93.

Lekachman, Robert. *Economists at Bay*, New York: McGraw-Hill, 1976.

Lerner, Abba P. "On Instrumental Analysis," in Robert L. Heilbroner, Editor, *Economic Means and Social Ends*, Englewood Cliffs: Prentice-Hall, 1969, pp. 131-136.

Lowe, Adolph. *On Economic Knowledge*, New York, Harper &Row, 1965.

Malthus, Thomas Robert. *The Principles of Political Economy*, second edition, London: reprinted in 1936.

Ricardo, David. *Letters of David Ricardo to Thomas Robert Malthus 1810–1823*, James Bonar Editor, Oxford: The Clarendon Press, 1887.

The Principles of Political Economy and Taxation, 1817. London: J. M. Dent &Sons, Ltd., (Everyman Edition, 1948).

Smith, Adam. *The Wealth of Nations* (1776), New York: The Modern Library, 1937.

Tugwell, Rexford G. "Experimental Economics," in Rexford G. Tugwell, Editor, *The Trend of Economics*, New York: Appleton-Century-Crofts,1924.

Cochran, Kendall P. "Economics as a Moral Science," *Review of Social Economy*, XXXII (October 1974), 185-195.

Dugger, William M. "Social Economics: One Perspective," *Review of Social Economy*, XXXV (December 1977), pp. 299–310.

Martin, David D. "The Uses and Abuses of Economic Theory in the Social Control of Business," *Journal of Economic Issues*, XII, (June 1978), pp. 271–286.

Robinson, Joan. "The Second Crisis of Economic Theory," *The American Economic Review*, LXII (May 1972), pp. 1–10.

Petersen, Wallace G. "Economics: a Science in Transition," unpublished manuscript delivered at Southwestern Social Economics Meeting, Houston, Texas, April 23, 1978.

Newsweek Magazine, August 17, 1978.

Time Magazine, August 17, 1978.

Part 2

The Need for Government Policy

When William Dugger discussed his idea of compiling Kendall P. Cochran's articles into a book for modern readers with Mona Hersh-Cochran, he suggested that an appropriate and compelling title would be *Government and the Economy*. In Cochran's vision, once economics has been transformed into a moral science, the ultimate purpose is to solve problems, a task that is often accomplished using government policy. This section of the book presents a few of Cochran's papers which emphasize the potential for government policy to provide solutions to economic problems.

Robert Reich has written extensively about politics and economics, and wonders why so many voters and politicians seem to believe that the best way to solve economic problems is to reduce the role of government in the economy. Asking, "what's behind this zeal to shrink government?" he argues that, "It's not that the U.S. government has suddenly become larger."[5] Instead, he says,

> The anti-government animus has more to do with the growing frustrations of many Americans that they're not getting ahead no matter how hard they work. Government is an easy scapegoat, used by much of corporate America to convince average Americans to cut taxes, spending, and regulations—and divert attention from record-high

[5] See http://prospect.org/article/its-not-about-deficit

> corporate profits and the concentration of income and wealth at the top. (prospect.org)[6]

Cochran wrote eloquently about the need for government policy, and the issues and concerns of today illustrate that his work is relevant and meaningful for modern readers.

[6]Ibid.

PRIORITY PROBLEMS IN THE SEVENTIES

Paper presented at Saint Mary's University Graduate School, San Antonio, Texas, *Selected Papers*, vol. VIII(1), March 30, 1972, pp. 1-18.

COMMENTARY BY SUSAN DADRES

In this article, Cochran seeks to identify the priority problems in the 1970's, and his focus is primarily on curing disease, living longer, and having more leisure time and material well-being. He identifies economic illiteracy as our major obstacle because it causes excessive reliance on free markets without regard to environmental consequences or issues related to poverty.

Cochran highlights many different challenges in this paper, *some* of which have now been corrected. Many of the problems he identifies continue to plague society, such as income inequality and lack of mobility. As he claims, farm subsidies benefit the owner, but not the farm hand.

The inability of policymakers to stabilize the economy using fiscal policy is stressed in the paper, along with suggestions for how to improve the effectiveness of this tool by creating an independent agency to manage fiscal policy and bypass the slow-to-act Congress. Cochran points out the problems with the gold standard and advocates a move toward free exchange rates. He recommends that we develop new techniques for measuring output and concerning ourselves with quality as well as quantity. The paper concludes with the hope that society will strive for a cleaner, more rational, better educated, and healthier state for mankind.

PRIORITY PROBLEMS IN THE SEVENTIES

My speech tonight concerns the priority problems in the Seventies. Professor Mai suggested this title last spring. It sounded challenging, so I readily agreed, since I have thoroughly enjoyed my past visits to your campus.

What are the priority problems in the Seventies? First, I think we need to examine some of the alternatives available to us. Then we need to make priority decisions from among these alternatives, identify the problem areas which we may encounter, and finally commit ourselves to the resolution or removal of those problems.

The basic foundation underlying these questions as they apply to priorities for the Seventies will be opportunities and alternatives available to us in ever increasing numbers and varieties— the opportunity to cure disease, to live longer with more leisure time and to be materially richer, to transform ourselves and our environment into something different and hopefully something better, to rid mankind of hunger and squalor, in short to find ways and techniques which will enable 3 billion people to live a mutually comfortable life on this planet.

And these are real and meaningful opportunities because our accumulated science and know how has made our economy inordinately productive. Productive beyond belief or imagination, as a matter of fact.

During the decade of the Seventies we will have an accumulated GNP surplus of approximately $1.5 trillion. That is, $1.5 trillion over and above our current per capita state of affluence.

What can we do with this $1.5 trillion? More TV's, more schools, more space shots, more Vietnams, more aid to education— the list is almost endless. What I am saying is that as we look into the decade of the Seventies we're looking at alternative uses of this productive capacity. For example, the factory that produces Napalm could produce fertilizer, the research lab that lands man on the moon could discover a cure for cancer. Lewis Mumford has written:

> The best hope space exploration offers is that this colossal perversion of energy, thought and other precious resources may awaken a spontaneous collective reaction sufficient to bring us down to earth again. Any square mile of inhabited earth has more significance for man's future than all the planets in our solar system.

In arranging our priorities, in selecting our options, we must come back to earth and direct our individual and social energies to life on this planet. But first we must identify some of the problems or obstacles that must be overcome if any of these priorities are in fact to be realized in the 1980's.

The major problem or obstacle, as I see it, is the state of general illiteracy about economics, and, stemming from this, our overwhelming reliance on the so-called impersonal market of monetary supply and demand to solve most of our economic problems. The market economy has served us reasonably well in the past— our rate of economic growth, the progress we have made toward eliminating poverty, our present age of affluence, attest to its success. The market mechanism itself, however, has created gross deviations from this, and is itself, therefore, unable to correct them.

To illustrate: We have only to look at or smell our polluted land, rivers and air. These obnoxious fumes and filthy water are the social costs of an industrial society which the market created, because it, the market, cannot allocate these costs of production to the individual who is responsible for them. The mill that makes the water unfit to drink or the air unfit to breathe is passing a cost of production on the public at large, not to the purchaser of the product, because this minimizes the monetary costs of production.

We dump our wastes into an environment which we have assumed to be limitless and unrestricted by individual ownership. The grounds around the factory are well manicured and groomed while the air is poisoned by industrial wastes. The same technological drive that sent two men to the moon is in fact threatening to destroy the very planet we live on. Secretary General U Thant warned us last summer that “the future of life on earth could be endangered unless positive action is taken against the pollution of water, air, and land.”

Air pollution alone now costs society some $11 billion in measurable outlays. There is no way of putting a dollar tag on the lung cancer, and emphysema attributable to it. Only some 50% of the population in the U. S. today drinks water that is clean enough to meet minimum federal standards. Many of our lakes, rivers and streams will no longer support healthy aquatic life, only slime and algae. The Cuyahoga River in Ohio has so much sludge and oil in it that it is actually a fire hazard. Imagine—a beautiful river that becomes a fire hazard. How would you put out a fire with that water? Or is it even water?

The simple fact is that the planet we live on is a closed system. Since the beginning of time we have treated it as if it were infinite, thus permitting us to ravage, rape, waste, pollute at will. That day is gone! As Denis Goulet has said, "What is required is not to abdicate science, technology or the effort to develop, but to subordinate them to ecological (and I would add human) values.” In short, ecological and human values must assume a priority over market values.

Let me look briefly at some other problems of social priorities. We need an expanded and uniform welfare system where, as Milton Friedman has agreed, we, the "haves" can, in a dignified way, help those who, for whatever reason, do not have. As we move into an economy of increasing productivity, I see no real alternative to some form of a guaranteed annual income—whatever name we or President Nixon gives it. The implementation of such a policy will obviously necessitate drastic changes in our whole social fabric. But change we must because in the U.S. today there is no longer any economic justification for poverty. There was in the days of Ricardo and Malthus. There is in India today. But not here and not in the Seventies. In fact, the pressing problem in the Seventies will be to find methods to distribute our productive potential. And it is at this point—the distributive mechanism—why some form of guaranteed annual income becomes a social necessity. Our antiquated distributive mechanism is inefficient and inadequate to the needs of today and will soon be a serious liability.

Several economists have, in recent years, proposed some form of a negative income tax. The basic idea is quite simple: since the administrative machinery is already in effect, and is highly automated, the income tax mechanism could be used as a simple and expeditious means of distributing income payments to the poor. Everybody would be required to file an income tax report, and those in the lower brackets would receive a "rebate" which would partially close the gap between actual earnings and some level of income that has been defined as being the minimum necessary. To realize this minimum income, each person would have to contribute some private earnings.

Partially closing the gap, however, will never eliminate poverty, since it could not provide the necessary income for the unemployables. Reducing the poverty gap may dull the fangs of poverty, but it obviously can never eliminate them. Nor can such halfway measures meet the real need for some kind of a guaranteed annual income The real need for such a plan stems, not merely from the needs of the poor for a higher standard of living, but from the prodigious productive ability of the modern industrial economy, and the increasingly impossible task of measuring the productive contribution of any individual.

Surprisingly, the belief that our output and wealth is unfairly distributed is no longer the exclusive property of the far left. Thus, a recent Fortune Survey of 300 chief executives of the 500 largest corporations discovered that these "leaders of American business are among the harshest critics of American Society." In fact, forty-five percent of them agreed that in the U.S. today, wealth is unfairly distributed.

It is true that we have accumulated a multitude of techniques (what Friedman called a "rag bag") for redistributing this output. To name a few, they range from aid to dependent children, aid to the blind, and payments to farmers not to produce. This premise clearly must be abandoned; the central premise must not be an *a priori* condition—farming, dependent children, or blindness, but the simple one of redistributing our output in a more equitable way. We could thus abandon our current moral hypocrisy of paying a gentleman farmer, who also happens to be a U.S.

Senator, some $135,000 a year for not growing cotton and generously paying the former field hand some $9 a week for not picking the cotton. There is something grossly hypocritical about having hunger and poverty while paying farmers some $ 7 1/2 billion not to grow food and fiber, and paying approximately 93% of this to the wealthiest 40% of the farmers.

We must permit low income families to work and still obtain welfare payments below some poverty line. The present system which lowers welfare payments by exactly the amount earned, (a rate of tax of 100) literally keeps people out of work and on relief.

There are other social priorities that I would urge and that many others, perhaps most others, would support—better housing in the slums and impoverished backlands of Appalachia, better medical facilities for all, a cure for cancer and other individual physical disabilities, more leisure time and better and different ways of spending it, whether in parks or in the classroom, meaningful long run economic aid to underdeveloped economies, and on and on. Upon reflection you could add to this list easily for they have a common identity. There are social ills for which the market itself can find no solution. The market—the impersonal production of goods and services, in response to the profit motive, will find a way of putting a man on the moon, or freeze-drying coffee. But it cannot deal with these other social ills, because either the market itself created it: air pollution, for example, or, there is no effective dollar demand for the product or service: a cure for lung cancer which is a result of air pollution. But where there is a dollar demand, the market will respond promptly and efficiently.

Thus we spent eight years, $30 billion, and used 300,000 technicians and put four men on the moon. Concurrently the National Health Institute sponsored what *Newsweek* termed an "all out" research effort to perfect a workable heart substitute. This "all out" effort amounted to a total of some $20 million since 1964. Meanwhile back in Houston NASA is planning on putting 4 men on Mars in 1980 at an estimated cost of some $100 billion.

During the decade of the 60's we have spent approximately $550 billion on war and defense. To date, Viet Nam alone has cost us $110 billion, which is more than we have spent on higher education in all our entire history. It has been calculated that if this war were to end today, the eventual total cost, veterans' benefits, interest on the national debt, etc., would add up to a staggering $350 billion.

Our traditional values which emphasize the sanctity of the market and the prestige of space and war, have precluded and forbidden the elimination of many social ills. Progress toward their elimination will never be made if we don't identify them and the obstacles to their realization: namely, the state of society's economic illiteracy, and the pervasive and ubiquitous belief in the efficacy, the permanence, the aloofness of the market mechanism as the final arbiter of individual and social priorities.

The public, and particularly public officials, have learned a lot of economics—both theoretical and applied in the last decade. Eisenhower's practical, no-nonsense approach to fiscal policy and his reverence for the gold standard cost us a high price in terms of unemployment and economic stagnation. Surely, those rigid days are behind us. But in the area of public policy we are going to have to continue to experiment with new and more flexible techniques of implementation. Fiscal policy, for example, could become a truly effective countercyclical force, if tax policy could be made more flexible. In the past, and especially in the 1930's, it was argued that changes in the level of government spending could be a stabilizing influence on the level of total spending. But that day is long gone, the level of government spending is too large and immobile to alter in the short run in an attempt to influence aggregate demand. More importantly, the level of government spending represents a social commitment to that portion of our total resources which we want to commit to the public sector. This commitment of social and political values should not be altered to achieve short-run countercyclical stability.

The same is not true of effective tax rates—they could be altered in the short run to realize effective countercyclical stability.

The president, for example, could have the power to change a basic surtax a plus or minus, say 20%, without having to go to Congress and wait two years to get it. It has been argued by some (mostly members of Congress) that this would be giving him too much power, but this is irrelevant nonsense, when he can commit 500,000 troops to Viet Nam or set off an atomic holocaust.

As a matter of interesting speculation, why couldn't we create an independent fiscal agency similar to the Federal Reserve Board of Governors. I would suggest say 5 qualified men with perhaps staggered 7 year terms.

This fiscal agency would have the authority to add or subtract up to a net 20% on existing tax rates, with perhaps the possibility of a Presidential veto. Congress would of course define the basic tax structure within which the Agency operates just as it set limits on Reserve Requirements for member banks, but the power of this agency would then duplicate the power the Board of Governors supply, which is to be in a position to act quickly and also to modify, extend or reverse that action quickly. I wouldn't want to be put in a position of defending every past action of the Board of Governors, for they have made serious mistakes. In my opinion, however, most of the shortcomings of monetary policy have been when fiscal policy has been working in the opposite direction or, when the Fed has had to support the dollar internationally. If we could achieve a higher degree of coordination between monetary and fiscal policy, we would then have an economy that could grow and expand more smoothly than it has in the past.

The inexactness and clumsiness of countercyclical fiscal policy has been largely due to the interminable slowness in getting legislation changed and a general unwillingness to do so in an election year. Both of these weaknesses would be tempered with some such techniques, as I have suggested here.

Very soon we are also going to have to rid ourselves completely and finally of the albatross of the gold standard and fixed exchange rates, and all of the myths supporting them. For over a decade this commitment has grievously hampered our social and economic intercourse with the rest of the world. Economic aid, foreign investment, trade and travel, even the life of the soldier abroad, have all been the slave of fixed exchange rates and a dwindling supply of gold. Almost every year since the 1950's we have run a deficit in our Balance of Payments; currently it is about $4 billion. Briefly—why do we have this deficit and what have we done about it?

We run the deficit because we spend more dollars abroad for goods and services, travel, investment, economic aid, and military aid than foreigners spend on those things here. How many foreign troops, for example, are currently stationed in the United States?

What have we done then to eliminate this deficit? Essentially two things; for one, we have tried to make it increasingly attractive for foreigners to keep their holdings in dollars and buy U.S. government securities, or place their dollars in time deposits in our banks. By pushing up interest rates, we have chosen to make it attractive for foreigners to hold their dollars in highly liquid short-term assets. Since the late Fifties monetary policy has been devoted to this aim and, at times this has seriously limited domestic monetary policy. Last year's deficit, for example, was absorbed almost entirely by an increase in foreign holdings of U.S. securities.

Secondly, in an attempt to cut the deficit the government has been trying to minimize these outflows by telling businessmen to limit the building of factories in other countries and encouraging tourists to stay home, and cutting back on economic aid.

But if Ford wants to build a factory in France, that's their business. If we want to send aid to other countries, that's ok, too. The same holds for travel abroad or military aid. But we should make these decisions on criteria other than the balance of payments. The gold drain should have no relevance. Economic aid is either good or bad and should be decided on the basis of appropriate social, political, and ethical values, not the gold flow. Private investment in foreign countries can be legitimately pursued by the interested parties, using whatever criteria they deem important. The same is true for tourism. If I want to go to Europe this summer on a delayed honeymoon, that is an extension of my wife's personal values.

We must, therefore, free the dollar completely from gold, and move toward a system of freely fluctuating exchange rates. At the present time $2.40 is equal to one English pound and it is allowed to fluctuate by only a plus or minus 1%.

If I have $2,400 to spend in England, how many pounds should I be able to buy? Whatever I can get. There is no reason to commit so many of our internal goals to guarantee that I can purchase 1,000 English pounds sterling for my $ 2,400. If, for example, I find that I can only obtain 500 pounds for my dollars I may just stay at home.

If Ford Motor Company has $2,400,000 and plans to invest in a plant in England we are guaranteeing that they can get 1,000,000 pounds sterling. If the exchange rate is free and subject only to supply and demand, perhaps they could only buy 500,000 pounds or perhaps 1,500,000 pounds for the same money, they are then free to make their decision to invest or not invest based on the profit potential.

In sum, let's abandon the myth of gold.

And finally, we also must be concerned about the quality of the GNP, as well as the quantity. And this is a problem for which the economist has precious little of substance to say, for we have limited ourselves to recording only the dollars spent in the market. We have perfected our techniques for estimating the value of the GNP but have concluded that dollars spent to advertise Bayer aspirin (which, at 79¢ a bottle is identical to the aspirin from Skillerns at 9¢ a bottle) is just as productive as an equal amount spent to fund research for an artificial heart.

Economics is going to have to take on a new dimension—it is going to have to concern itself with the quality of life as well as the monetary value of wages, profits and the GNP.

Economic myths and illiteracy do stalk the land and if not eliminated will remain the final obstacle to the realization of any set of priorities other than those currently and traditionally sanctioned by the market's way of distributing income and then allocating its resources to satisfy the whims of those who have the ability to buy in the market place.

As the student of economics knows, these are not exactly new ideas in the history of our subject. Thus Adam Smith, the grandfather of all of us, concluded that even in the obvious and simple system of Natural "Liberty" and *Laissez Faire*, a wise sovereign would still be obliged to erect and maintain certain public works and institutions. Adam Smith says this:

> Because the profit could never repay the expense to any individual or small number of individuals. Though it may frequently do much more than repay it to a great society.

John Stuart Mill, reminded his generation in the 1840's that society's use of its resources, labor and productive capacity is subject to no natural laws. In Mill's words:

> Mankind, individually or collectively, can place them at the disposal of whomsoever they please, and on whatever terms… the distribution of wealth, therefore depends on the laws and custom of society, i.e., on what it is that society wants it to be.

In somewhat the same vein, Dave Greenshields, chief of the Thermal-Technology branch of the Manned Space Center in Houston, has argued that the MSC is essentially only a well-organized problem solving machine and that it could, for example, turn from landing a man on the moon to cleaning up the ghettos and be just as successful, if this were the direction it was given. Think for a moment what 300,000 technicians and engineers and researchers and scientists and $100 billion could do in the decade of the Seventies.

Think, then, what we might do with the $1.5 trillion which will be available to us during the short decade of the Seventies, to do with somewhat as we please. I doubt seriously that we are going to give up moon shots, but couldn't we postpone our trip to Mars for one decade and instead devote the same energies and resources to making life for mankind more hospitable and more equitable here? A decade of that order of devotion just might make us realize we don't really want to go to Mars after all—that this old planet could be a pretty good place to live the good life.

The essential meaning of asking about Priority Problems for the Seventies is to ask where do we want to be by the Eighties; to do some planning, some serious thinking about what kind of a society do we want to work toward? A polluted, seething, crippled, armed fortress, or a cleaner, more rational, better educated, healthier state for mankind. Obviously not all of our goals can be achieved in one short decade. Real and measurable progress can be made, however, but only if we make choices, set our priorities and then move with all our energy, resources and haste in those directions.

REACTIONS TO A SPEECH BY MR. IRA CORN ON THE FUTURE OF BUSINESS ENTERPRISE

A paper presented as part of the Bicentennial Lecture Series at North Texas State University, February 24, 1976.

COMMENTARY BY SUSAN DADRES

In this paper, Cochran reveals deep disappointment at revelations of graft and corruption at the higher levels of corporate decision-making, and calls into question the future of free enterprise as a result. Although the paper is part of the Bicentennial series, Cochran places more emphasis on the 200-year anniversary of the publication of Adam Smith's *Wealth of Nations*, noting that even Smith acknowledged that "people of the same trade seldom get together even for merriment or diversion, but the conversation ends in some conspiracy against the public or some contrivance to raise prices."

The potential for corruption was not as significant in Smith's day, when the economy consisted of very small owner-operated enterprises—the so-called butcher, brewer, baker economy. Unfortunately, Cochran notes that "… today's corporate world of multi-national, billion dollar monoliths shares few features with that naïve and simplistic world of yesteryear." The hugely significant conclusion reached in this paper is that "… corruption, political bribery, shoddy merchandise, atmospheric pollution, even at one time the property rights to own another human being, are no longer tolerated, condoned, or accepted, in the name of free enterprise." Yet they and greed continue today at an even higher level and with a greater pace.

REACTIONS TO A SPEECH BY MR. IRA CORN ON THE FUTURE OF BUSINESS ENTERPRISE

Any set of social institutions or ideologies can function effectively in a free environment only so long as the vast, perhaps overwhelming, majority of the public believes in them. That is, effectively believe and trust in what they say and do. No ideology of a social or economic nature is carved in stone. All are transitory and from the long view of history, quite ephemeral. And so it is with the ideology we are analyzing tonight: free enterprise. I doubt very seriously that it in fact has much of a future for the simple reason that there is increasing evidence rained down on us every day that this ideology has betrayed our trust. And if the rainstorm continues, then the flood of public outcries of anguish and shame will severely limit this particular package of freedom to lie, cheat, swindle.

I am of course referring specifically to the recent revelations of the graft and corruption that is apparently epidemic at the higher levels of corporate decision-making. The details are too broad and varied to go into, but a few examples will illustrate:

—Tenneco has admitted to innumerable payoffs and gifts ranging from $2,000 to a judge to $120,000 to a local sheriff—both in Louisiana

—Lockheed has paid out who knows how many millions in recent years:

> —as much as $7 million to a right wing Japanese official to sell its aircraft

I too am frankly and deeply disturbed about the future of free business enterprise for, as I understand it, the underlying defense and rationalization for free business enterprise was that the best product would win in the marketplace. But of recent, it turns out embarrassingly often that instead, it is the product for which the biggest bribe was made, at least in foreign trade.

Not only has free enterprise thus led to the toppling of friendly governments and the destruction of royal reputations (WSJ 2/13/76), its grasp for more at any cost has now seriously threatened the solvency of many of our strongest commercial banks. As serious as this possibility is, however, we are assured that the individual depositor has no reason to worry. At least not up to his first $40,000 in each bank insured by the F.D.I.C.

So I ask what are the limits to free enterprise that we can continue to accept? How many foreign bank accounts are U.S. companies free to pour unaccountable funds into to elect the presidents of the United States, or of South Korea?

Thus I am not sure that free enterprise really has much of a future, at least not as we have known it for 200 years. And 200 years is exactly correct, for it was also in 1776 that Adam Smith published the *Wealth of Nations*. This was the first comprehensive plea for self-interest as *the* guiding force in a free enterprise, market-oriented economy. As Smith argued the case, the essential ideology of business enterprise was that the end justified the means. The end an expanding Gross National Product, and the means to that end the unfettered profit motive. And as Smith understood the economic world of 1776, this simple connection was all that was important. Thus he blandly admitted that "people of the same trade seldom get together even for merriment or diversion, but the conversation ends in some conspiracy against the public or some contrivance to raise prices." This conspiratorial nature of free enterprise was of absolutely no concern for Smith in an economic world composed solely of individual entrepreneur-owners doggedly pursuing profits as neighborhood butchers, brewers and bakers. But today's corporate world of multi-national, billion dollar monoliths shares few features with that naïve and simplistic world of yesteryear.

So long as the end—an expanding GNP—was being continuously realized at little or no cost, then society-at-large accepted the unfettered profit motive as the guiding principle. But that uncritical acceptance is now a thing of the past, and corruption, political bribery, shoddy merchandise, atmospheric pollution, even at one time the property rights to own another human being, are no longer tolerated, condoned, or accepted in the name of free enterprise. Free enterprise historically meant the freedom to do anything in the pursuit of profits. Thus morals, or conscience, or ethics, or a sense of decency were all totally irrelevant. If one polluted the atmosphere, or sold contaminated meat, or bribed a government official—“well, so what, everybody else is doing it, aren’t they”? But if that is all the rationalization needed, then should not the same code of ethics apply to arson, or rape or murder? And if so, how long could civilization last if that were the pervasive moral code? A.W. Clausen, president of the Bank of America, commented recently on the scandalous outpouring of corruption and bribery by Lockheed, Tenneco, et al., saying “If the [free enterprise] market economy ever goes under, our favorite villains—socialist economies and government regulation—won’t be to blame. We will. If we [the business leadership] are not concerned, then we’re just not sensitive to the reality of the problem or today’s world.” (*Newsweek*, 2/16/76, p. 59)

A QUESTION OF ASSUMPTIONS

A paper delivered before the annual meeting of the Western Social Science Association, Lake Tahoe, Nevada, April 27, 1979.

COMMENTARY BY SUSAN DADRES

Cochran begins this paper about assumptions with the familiar conditions of low barriers to entry and competitive markets, but reveals his true intent by pointing out that *laissez-faire* is and always was a means to an end, not an end in itself. Throughout the paper, Cochran laments the way Adam Smith's normative and value-driven approach to analyzing society's ills developed into the positive approach favored by Ricardo.

A central theme running through much of Cochran's work is that economic knowledge has stagnated, that it no longer serves its main purpose to solve social problems. He cites examples from the 1970's of how the economist's skills and know-how are wasted on meaningless studies that would make one believe no real problems remained to be solved. He would have no difficulty finding similar examples today.

Cochran presented this paper to an audience of his peers and used the opportunity to make a plea for turning away from David Ricardo's "search for the permanent state of things" and toward Thomas Malthus' concern with "accounting for things as they are." He makes a very strong argument that economists might do a better job of establishing priorities and recommending policy options than news editors and commentators—substitute bloggers and pundits in today's terminology.

Economists do much of their work in imaginary worlds, with models which are built to represent the most important aspects of the incredibly complex real world. It is not often possible to run the experiments that would help answer every question when the test subjects are workers, entrepreneurs, consumers, and families. However, this does not justify a decision to remain in that imaginary world indefinitely. Once the experiments have been run in the model or imaginary world, the next and most important step is to use the results to identify the best course of action for the real world. As Cochran points out, knowledge is gained through trial and error.

What will happen if the capital gains tax rate is lowered? It is no longer as important to consult economic models for an answer because an experiment has been underway for the past decade. The approach to economic science advocated by Professor Cochran and many of his Institutionalist colleagues would have us make an assessment of the effectiveness of lowering the capital gains rate before too much time has passed. Were the tax cuts a successful tool for creating jobs and raising prosperity? The answer to this question is not absolute and forever, it depends on when and how the change is enacted. Policy choices are not right because they are consistent with someone's ideological preferences, they are right because they work.

As Cochran concludes, "…we have a moral obligation to help define a better life and then help society achieve it…"Thus, once we as economists define the moral assumptions we want our conclusions based upon, the outcomes will be consistent.

A QUESTION OF ASSUMPTIONS[7]

I have given this little paper the title of "A Question of Assumptions," and that is approximately what I want to develop, beginning, as is so often the case, with the philosophic assumptions of our first moral philosopher, Adam Smith. As a point of departure, Smith assumed certain propensities or traits of man to be natural, and therefore, to be cherished, promoted, championed, liberated, etc. They were obvious and self-evident. He also assumed that the wealth of a nation, the direction toward which these individual propensities should be directed, was likewise obvious and self-evident.

While all of us are more than routinely familiar with Smith's essential ideas, let us take a brief look at the essential assumptions that Smith used as a foundation for his remarkable edifice. The *Wealth of Nations* was really a marvelous tour de force. Replete with anecdotes, digressions, footnotes, illustrations, conjectural history, and on and on, but always plodding sure-footedly toward the major thesis of the book: that the wealth of all would be immeasurably enhanced if George III would simply abdicate any responsibility for managing the affairs of the economy. The immediate next stage would be that "obvious and simple system of natural liberty," or what economists and other theologians are later to call *laissez faire*. It was a deceptively simple system where every individual would be "perfectly free to pursue his own interest his own way, to bring forth his industry and his capital into competition with those of any other man." (*Wealth*, p. 651, also pp. 233, 56, 62, 99.)

---

[7]A paper delivered before the annual meeting of the Western Social Science Association, Lake Tahoe, Nevada, April 27, 1979. I wish to thank Mona Hersh-Cochran and William M. Dugger for their many helpful comments and suggestions on an earlier draft of this paper.

What Smith was doing, and doing very well, was to show not only the advantages of the simple and obvious system of natural liberty, but more importantly, that the then present system of government regulation was artificial and unnatural, because it violated the fundamental laws of nature and thus hindered the full realization of the wealth of the nation that was potentially available. This pragmatic philosophy about means and ends was of course what made the work appeal to so many powerful and persuasive elements in the newly emerging bourgeois community. It was exactly what they (and their twentieth-century descendants) wanted to hear.

Smith simply assumed a world made up of small independent businessmen where there were no barriers to entry other than government restrictions in the form of franchises, patents, licenses, etc. There were no significant capital requirements, no trade secrets, nothing of importance that would inhibit man's basic propensities: to "truck, barter and exchange," *and* an instinctive regard for one's own self-interest. Given this milieu, Smith could confidently predict that if government regulations were removed, then indeed every man could choose "what occupation he thought proper, and to change it as often as he thought proper." (*Wealth*, p. 99.) With a small amount of capital, any individual could become a butcher or a brewer or a baker. And self-interest in the form of the profit motive would show him the way. Then, as if led by an invisible hand, he would be using his capital to command scarce resources to satisfy the wants of individual consumers.

Given the power of these natural forces, Smith could optimistically forecast that when all systems of preference or restraint were "completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord." (*Wealth*, p. 651.)

Laissez faire then was not an end in itself, but a means to realize or achieve an assumed end or goal. It was a devised social policy to be adopted in order for society to realize a goal that Smith assumed to be better than others: an increase in the wealth of the nation. And just what was this *wealth* that Smith wanted to maximize? Not the pyramids of the pharaohs, not the cathedrals of the Middle Ages, not a favorable balance of trade, nor an increase in the treasury of the sovereign, not a redistribution of the *product net*, but rather a revolutionary end or goal: the maximum output of goods (perhaps services) produced, not according to the whim of some distant statesman or lawgiver, but produced to satisfy the wants and preferences of individual consumers. (*Wealth,* pp. 56–58, 423.)In Smith's words, "Consumption is the sole end and purpose of all production . . . [a] maxim so perfectly self-evident, that it would be absurd to attempt to prove it." (*Wealth*, p. 625.)This of course is the same logic of our own Declaration of Independence: "We hold these truths to be self-evident," etc.

That which is self-evident need not be proved. It would be fatuous to attempt any defense at all. It is simply taken as one of the givens, as one of the unarguable points of departure.

Most of this world has of course disappeared. We are no longer a nation of small shopkeepers, open and free competition is an isolated rarity, and while individual consumption remains among the primary and dominant goals of our overflowing abundance, it no longer reigns as the "sole end." Indeed, in recent decades we have, through collective action, redirected a sizeable fraction of our productive capacity to meet the needs of broad social goals, ranging from welfare programs, to exploration of the moon, to cleaning up the atmosphere. In other words, we have had to invent new assumptions about the nature of the wealth of a nation—such as having no person below the poverty line, or getting to the moon before the Russians, or inoculating every child with polio vaccine, or providing them with hot lunches, or breathing clean air, or what have you. But to achieve any of these social goals, to maximize these newly defined components of the wealth of the nation, we of course have had to bypass the market as *the* allocative decision-maker.

But as a socially responsible economist, I do not believe we can afford to leave that crucial a decision to a simple "or what have you." Just as Smith was an advocate for a new experiment in his day, so also should we assume the responsibility for advocating new experiments in ours.

Smith was clearly and obviously a normative, value-directed economist: telling society what it should want, and how it should go about achieving it. He thus laid the foundation for a meaningful and useful social science by identifying an immediate socio-economic problem—the irrelevancy of producer-dominated legislation for meeting the needs of individual consumers. He then offered an alternative to correct what he identified as a social inadequacy.

Thus from a clearly and obviously normative value judgment about what was good for society, Smith identified a socioeconomic deficiency in the status quo and from an equally normative position, he proposed a social experiment to attempt to correct the deficiency.

What an auspicious beginning for this newly emerging social science! Unfortunately, it was only a beginning. This normative, value-directed, advocacy position was not to last very long. Instead, we soon turned our attention and energies to discovering and developing laws and principles.

The options, however, were clearly presented to us early in the evolution of our discipline by those two early giants, Thomas Robert Malthus and his good friend, David Ricardo.

Malthus pointed in one way when he said, "The first business of philosophy is to account for things as they are; and till our theories will do this, they ought not to be the ground for any practical conclusion." (*Principles*, p. 8.) But Ricardo insisted that, quite to the contrary, the first business was "to put these temporary effects quite aside, and fix our attention on the permanent state of things." (*Letters,* p. 127.)

What a wiser and more meaningful *social* science we could have developed, had we only followed Malthus' suggestion that we should "account for things as they are." Instead, we opted for the search for universal laws and long run principles that regulate values and distributive shares in a free competitive market.

As the *science* of economics developed through the nineteenth century, it became an abstract, purportedly positive science, explaining by logical analysis, how a free market might allocate resources in the most efficient manner possible. In the hands of the nineteenth-century technicians, this body of thought evolved into a beautiful, orderly, systematic set of generalizations and abstractions. By the end of the century, it became, in the hands of Alfred Marshall, a thing of genuine beauty. By careful selection of assumptions, by the use of orderly logic and a smattering of mathematics, Marshall codified a separate kind of economics: a set of principles that may be independently pursued, refined, elaborated upon—all as an end in itself.

Given certain assumptions about human nature and a given and constant technology, we then built an elaborate labyrinth of abstractions and generalizations which have been highly entertaining, even fascinating, to all who are privy to our esoteric and arcane rites. And they have been extremely useful as hurdles to thwart the neophyte wanting to enter the priesthood. And, I believe, in their day and time, many of these theories were highly useful for helping society to come to grips with certain well defined socio-economic problems of the day. But most of what passes for economic knowledge has less than immediate bearing on the crucial social-economic issues of today. Received economic theory is of very limited relevance for the more pressing socio-economic issues that confront us.

Most traditionally oriented academic economists have become so involved in further perfection of the professional techniques that had to be mastered to gain admission to the guild, that the relevancy of such techniques is ignored or bypassed. Much of this irrelevancy can be traced to the assumption from which the analytical models are derived.

In quick summary, the economist's ultimate belief in dollar signs, in the perfectibility of market decisions as expressed in equilibrium models, in the infallibility of the rights of private property, have made the teaching and the promulgation of the "principles" of economics an esoteric end in itself.

The consequence is a maze of intellectual complexity that economists can share only with each other. Its primary relevance is to impress and awe Deans and Vice Presidents—Academic and Corporate. Pick any recent issue of the *American Economic Review*, or attend any of the meetings sponsored under the sacred imprimatur of the AEA, and you may agree with the editor of *Business Week* who did just that and acidly commented that "the economics profession faces intellectual bankruptcy [because] there were simply no important ideas for proceeding with the nation's most pressing tasks." (*Business Week*, January 16, 1978.)

Thus while we cannot account for things as they are, we have become extremely proficient at building models of imaginary games which are then converted into econometric models of market opportunity. And if markets do not exist, then any economist worth his $36 annual membership in the AEA, can invent one. The examples of cost-benefit analysis to justify fishing reservoirs or county jails are standard fare for every city manager.

And now to crown all past glories, comes a report in the house organ of the Chicago School, the *Journal of Political Economy*, of a Yale economist who developed an econometric model to predict (or rationalize?) how men and women divide their time between household and non-household lovers. That is why a cheater cheats and how much time he or she spends doing it. (I do not believe any attempt was made to measure the marginal utils gained from extramarital affairs. Perhaps because market-oriented lovers are indifferent between household and non-household lovers.)

I ask, is this the current state of our science and our art?

As a socially responsible economist, I would hope not. And I hasten to add and to stress that my repulsion has nothing to do with the morality of adultery, I'll leave that to the priests and rabbis.

But my repulsion does have to do with the morality of using the economists' skills, our accumulated know-how and technical resources, to explain behavior which is of absolutely no concern to the economist as a social scientist.

If this represents the sum of our current theory, then the editor of *Business Week* is much too kind merely to call us bankrupt.

If then we are to be as socially relevant as was Smith or Keynes, then as socially relevant economists concerned with current social issues, we must abandon much of our traditional heritage which concentrated on explaining how markets, either real or make-believe, purportedly operate, under various assumed conditions. Instead we must adopt a conscious, value-oriented, openly normative position that concentrates on how the economy should operate, what the goals of society should be, and how those goals may be realized.

But to make this transition, we will have to abandon the epistemology that has dominated most of our thinking and practice since the triumph of Ricardo's search for the permanent state of things, and adopt Malthus' more pragmatic concern for "accounting for things as they are." We will necessarily adopt an openly moralistic, normative stance in helping define public goals and policy directives. We would thus move to take those public goals out of the morass of purely personal opinion of news editors and commentators, out of the "or what have you" arena, and move such goal-seeking toward a more scientific foundation. This was the instrumentalist issue to which Abraham Kaplan directs his recent work, *American Ethics* and *Public Policy* (1963), when he emphasized that,

> Policy must be scientific to be effective. . . . But to say scientific is not to speak of the paraphernalia and techniques of the laboratory, it is to say realistic and rational—empirically grounded and self-corrective in application. Policy is scientific when it is formed by the free use of intelligence on the materials of experience. (p. 92)

Economic theory and economic policy decisions must then be closely interdependent. If we adopt this orientation, we would agree with Wesley Clair Mitchell when he commented that,

> In the life of that nation, planning plays the role that thinking plays in individual life. Both processes are resorted to find ways of surmounting difficulties that occur in the course of routine behavior. ("Intelligence and the Guidance of Economic Evolution," reprinted in *Backward Art of Spending Money*, p. 129.)

Received and traditional economic theories have indeed offered us little assistance in surmounting the difficulties that have plagued us these last several years. As a meaningful alternative, then, intelligent, rational planning is obviously called for if economics is once again to become the meaningful and relevant social science that it was when it was first formulated by our moral philosopher founder.

In short, we must adopt a more pragmatic, instrumentalist, philosophy. We must turn to the test of experience and experimentation. John R. Commons aptly summarized the essential basis of pragmatism in the social sciences:

> The method of historical science, and therefore of economic science, is the process of analysis, genesis, and insight … a process of attaining control over the forces of nature by better knowledge of the ways in which these forces operate. As Dewey has said, "Ideas are statements not of what is or has been—but of acts to be performed." (Commons, *Institutional Economics*, p. 747; for an excellent analysis of Commons' pragmatic philosophy, see W. M. Dugger, "The Reform Method of John R. Commons")

Thus economic theory would become, not a series of abstract generalizations about assumed market conditions, but programs for action, plans to be carried out, all centered on the central issue of alleviating stress, surmounting difficulties, finding alternative experimental solutions to today's problems. When we adopt this epistemology, then our guidelines are to make economic theory and analysis exploratory, investigative, tentative, useful, experimental. We would accept change and flux as the very subject-matter of our discipline. But most importantly, we would insist that such change is not random or haphazard, nor the inevitable consequence of natural law. The primary emphasis and point of departure would be that such change is subject to orderly control and direction. We would accept Kaplan's charge that "A belief is not scientific because it has been 'proved,' but because it is continuously tested, and tested by conformity to experience rather than to axiomatic truths." (Kaplan, p. 103.) We would then see knowledge as an instrument; its function would be guidance and control of the economic process. Knowledge and understanding would be issue-raising, problem-solving, action-centered. As Dewey has said, knowledge "does not come into existence till thinking has terminated in the experimental act which fulfills the specification set forth in thinking." (Dewey, *Intelligence in the Modern World*, p.932)

Knowledge then must be socially useful. To be useful, it must be used to find tentative solutions to ever-changing problems.

This instrumentalist knowledge would not simply mirror or generalize about an imaginary world; nor would it attempt to reduce the real world to a series of static assumptions and deductive conclusions. If knowledge is to be problem-solving oriented, it must become a changing, dynamic, body of hypotheses which is put to work in an experimental setting. Such hypotheses are judged to be *true*, when they work in alleviating difficulties. Knowledge is thus gained through experience, through trial and error; it is therefore always experimental and tentative. Economics as a social science would then accept Kaplan's argument that "Even the most basic principles of science are not eternal and unqualified truths, but instead the most powerful heuristic instruments so far known!" (Kaplan, p. 97)

Rather than building elaborate models predicting time spent in adulterous relationships, we would insist that our discipline once again assumes the problem-solving, action-oriented status that it was in the hands of Smith and Keynes. This view of knowledge as an instrument of control obviously relies heavily on Dewey's definition of truth as given by an experimental and functional logic. A theory is “reliable, sound, valid, good, true," when it succeeds in removing some specific trouble or perplexity. When it fails to clear up the confusion or to remove the problem, then it is false. Thus, "the hypothesis that works is the true one." (*Reconstruction in Philosophy*, pp. 128–129.)

Accepting this instrumentalist philosophy is the major reason for rejecting mainstream micro and macro economics. It is not that they are wrong in any absolute sense, but that neither provides any meaningful guidance for clearing up the socio-economic problems that plague us today. Neither provides any significant assistance toward eliminating the more serious defects of the modern social economy. Whether the problem is one of inflation, high and sticky levels of unemployment, the energy crisis, urban blight or the maldistribution of income, received economic theory fails to clear up the confusion and thus to eliminate defects.

That is why we have a moral obligation to help define a better life and then help society achieve it, to grow to its fullest moral stature. While mankind should not leap into an unknown void, neither must it remain forever earthbound. (Kaplan, p. 93.) It is simply our responsibility to show the way, to help society see that there are newer and brighter stars to aim for.

References

Commons, John R. *Institutional Economics*, Madison: University of Wisconsin Press, 1959.

Dewey, John R. *Intelligence in the Modern World*, Joseph Ratner Editor, New York: The Modern Library, 1939.

———. *Reconstruction in Philosophy*, New York: The New American Library, 1949.

Kaplan, Abraham, *American Ethics and Public Policy*, 1963.

Malthus, Thomas Robert. *The Principles of Political Economy*, second edition, London: reprinted in 1936.

Ricardo, David. *Letters of David Ricardo to Thomas Robert Malthus, 1810–1823*, James Bonar Editor, Oxford: The Clarendon Press, 1887.

Smith, Adam. *The Wealth of Nations* (1776), New York: The Modern Library, 1937.

Dugger, William M. "The Reform Method of John R. Commons," *Journal of Economic Issues*, XIII (June, 1979).

Mitchell, Wesley C. "Intelligence in the Guidance of Economic Evolution," reprinted in *The Backward Art of Spending Money*, New York: Augustus M. Kelley, Inc. 1950.

PART 3

THE RELEVANCY OF INSTITUTIONALIST THOUGHT

Kendall Cochran made significant contributions to the Institutionalist School of Thought. While many scholars in the field of History of Economic Thought associate Institutionalism most closely with Thorstein Veblen, Cochran privately believed that Veblen's pessimism about the future disqualified him as a true Institutionalist since this school's main concern is to solve society's problems. The papers in this section highlight Cochran's own contributions to the Institutionalist School of Thought, as well as some of those of economic thinkers Cochran admired, such as Clarence Ayres, Wesley Mitchell, and Marc Tool.

The Rules of the Game

Paper presented at St. Mary's University, 1965.

COMMENTARY BY DAVID MOLINA

Modern followers of the Austrian School of Economics strongly favor the Coase Theorem. The Theorem, in a nutshell, states that when there are well-defined property rights, parties naturally gravitate toward the most efficient and mutually beneficial outcome. In this paper, Cochran delves into the concept of ownership and in a somewhat satirical manner takes the modern ownership rules to their logical extreme and in a sense anticipates a refutation to the Coase theorem.

The paper begins with a description of how between the fifteenth and eighteenth centuries, at the time of nation building, large portions of the population began to participate in the market mechanism of buying and selling—goods, services, labor, etc. Cochran states that this system worked well for over three centuries of industry protection and regulation by the feudal lords or mercantilists. Eventually the upper classes found it no longer necessary and wanted more freedom. *The Wealth of Nations* by Adam Smith gave the new paradigm of *laissez faire*, in which free labor markets, the profit motive, and the right of private property rule. Cochran argued that today it still is the prevailing system and hinted that just like mercantilism, it did not have to be the end-all system. Cochran confronts this issue directly by pointing out that while this system has the potential to eradicate poverty, it does not do so because we do not have the ability to consume the maximum output this efficient system has to offer. In other words, scientific and technological advancement have created abundance, but our system has not provided the method by which output can be distributed to all those needing or requiring it.

Furthermore, Cochran suggests that perhaps the system will, like other previous systems, eventually degenerate and go from this abundant production to one where even the meager distribution system we currently have would not be satisfied by this level of production. Cochran points out that a simple, yet many times overlooked, reason for this degeneration is the logical conclusion of the absentee owners. While many may own a company as stockholders, the modern corporation has numerous owners but only a few controlling ones. This can even be more complicated if one comes to the realization that the firm can purchase its own stock and become the sole controlling "owner," or that company pension funds from the employees can become the principal owner, while the employees have little say in the management and long-term goals of the firm. Cochran provides ample evidence that the issue of *true* property is becoming diffused and narrowly controlled. The benefits that can be obtained by the system suggested by Adam Smith may no longer be an appropriate paradigm.

Cochran provides ample exaggerated results from the "new ownership" realities and it is sometimes hard to determine when he is injecting a heavy dose of sarcasm. This is never more true than when he states, "… there is surely no real risk that General Motors is going to go broke."

THE RULES OF THE GAME

As western Europe gradually emerged from the localized, static and tradition-bound days of feudalism, it moved toward a commercial, a market-oriented economy. That is, between about 1400 and 1700, more and more people made their living by buying and selling—goods, services, labor, etc. And, all such buying and selling activities were rather closely regulated by the state. Regulated, guided, supervised toward one consistent end: to make these newly emerging nation-states economically powerful and self-sufficient.

This set of rules came later to be known as Mercantilism. And I think most historians would judge that they worked admirably well for some 300 years. They stimulated the move from status to contract, the move from the manor to the city, they certainly stimulated the growth of economically powerful nation-states. And they also led to the colonization of the new world.

But this set of ideas and values and institutions, this set of rules governing economic activity, gradually atrophied. They came to have less and less meaning for the increasingly powerful bourgeoisie. For they, the merchants, the bankers, the capitalists, the entrepreneurs, were now the dominant class. Particularly in England and the United States. They no longer needed and no longer wanted the protection, or the interference, of government regulation. And by about the middle of the 1700's, these restrictions came increasingly to be ignored, circumvented, bypassed.

The old rules simply were no longer adequate to the needs of the day. And in 1776 a mild, absent-minded Scottish professor of moral philosophy provided the answer: *The Wealth of Nations* by Adam Smith. Smith didn't invent anything new. He did codify emerging economic practices into a coherent and logical system of thought. In Wesley Claire Mitchell's words, he provided a "neat philosopher's rationalization for what the bourgeoisie were doing, or wanting to do." And what they wanted was a change in the rules. Smith simply explained and justified and rationalized these new concepts, these new rules of the game. We, of course, have grown so accustomed to them, they are such an integral part of the fabric of our society, that some of us, at times, think that Smith found them chiseled in granite on the top of a Mount Sinai. But they are not eternal verities; they are only a set of customs or habits of thought. The more important ones that Smith argued for are:

> the right of private property
> the profit motive
> a free labor market—that is, freedom to move
> about, to quit, etc.
> the virtue, indeed, the absolute necessity, of thrift
> free competition and *laissez faire*.

This new set of rules was designed to assure that when the laborer sold his services in the free market he would receive pay according to the value of his productive activity. He was free to move about, to quit and go to work elsewhere. And in a free competitive economy, the boss would be forced to pay him his worth.

The capitalist-entrepreneur who abstained from the pleasures of immediate consumption was also rewarded by this competitive market according to his productive contribution. And that contribution was the accumulation of capital goods, so absolutely vital to both the immediate and the long run growth of the economy.

For first needs had to be met first. And the very first need was the accumulation of more capital goods. This meant that society necessarily had to abstain from immediate consumption.

So, capitalists did the abstaining, they put up the money to buy the machines and hire labor and were, therefore, in a very real sense the great hope of humanity.

The total output of that economy was pitifully small. And to add even perceptibly to that output was a remarkable feat indeed. It required a tremendous amount of hard work and ingenuity. And the hard fact is that there was very little to divide up between or among the various participants. So, most got very little and a few got quite a bit. That is to say, the rewards were practically unlimited for the very few who made it to the top. But most participants remained hungry, cold, and downtrodden at the bottom. And it had to be.

There was only one splendid house on the top of the hill, for the eternal fact of economic life was poverty. The specter of scarcity lay always on the land. And exploitation, injustice, degradation were the simple and unbending facts of life. Not only economically justifiable and defensible, they were absolute necessities. There simply was not enough to go around so long as society was limited by the diminishing returns of a barren, rocky, turnip patch. Society was locked in the prison of economic scarcity.

But we in the United States are no longer in that prison, for the door has been unlocked. While it is literally true that not everybody can live at the top of the hill, it is no longer necessary for anyone to be at the bottom. Scarcity is no longer an adequate explanation or rationalization for poverty.

These observations are of course not new. As early as the 1920's many a close observer of society and economics knew that individual want or poverty was no longer necessary. Herbert Hoover, you will recall, noted in 1928 that "the poorhouse is vanishing from among us.” And he was quite correct. These words were to haunt and taunt him in 1932—but it was a correct appraisal of the economic potential of 1928. But that potential was not soon to be realized for we had not yet found a way to consume all that we could produce. So, we simply shut down our factories, mines, and mills for the next decade.

If we are to realize this potential, then we must know more about its sources than Hoover and his contemporaries did. The source of this economic plenty is of course the scientific and technological revolution that has been going on since the beginning of time. As science and technology have progressed they have created new ideas and from these new ideas—from what we today call research and development—have come new and better ways of creating economic goods and services. And this has been going on since the beginning of time because man is a tinkerer, an inventor, a short-cut seeker, and an innovator. He is, in short, restless and dynamic and inquisitive. He is really only happy when he is doing something. This is the essential and important part of being human. A human being is not an “it", a quiescent, inert thing. Quite to the contrary, the *being* of human being means tinkering, exploring, inquiring, creating; a restless seeking after truth and beauty and understanding, the climbing of mountains, and crossing of oceans and plains, and orbiting in space.

Man has yet another important characteristic: he accumulates. He accumulates both things and ideas. And whether in economic theory, or in agronomy, or in steel technology, or in atomic energy, knowledge is a cumulative process. We learn by using what we know and in so doing we create new ways of doing other things—new ideas, new techniques, new skills. And that is the key to the economic prison. For it is knowledge alone that makes resources and labor and capital goods productive.

To illustrate: I would point to what has happened to the farmer's productivity. We have approximately the same number of people farming the land as in Thomas Jefferson's day, but we are embarrassed with our surpluses of food and fiber. The farmer of today has at his disposal a wealth of better tools, fertilizers, know-how. He of course didn't create these fertilizers and tractors and combines, for they are a part of the storehouse of social knowledge.

And it is the cumulative, geometric, the explosive growth of knowledge that is revolutionizing our lives with data processing, transistors, jet air craft, miracle drugs and miracle fibers.

This is truly the revolution with which we are so intimately concerned today: this scientific and technological explosion and the resulting economy of abundance.

My concern, as an economist, is by what set of rules are we to play this game of production and distribution—for this is what economics is all about. I haven't the foggiest notion of how a transistor works or why jet airplanes fly. I am, however, concerned with the rules of the game. In particular, will the old ones continue to work as efficiently as they did in the past?

The old rules are of course no longer with us in their original form. Adam Smith would no more recognize the modern corporation as a form of private property than he would recognize a jet aircraft as a form of transportation. Both would be totally alien and totally incomprehensible.

In the grocery store economy of the latter 19th century, Smith dismissed the embryonic corporation as a useful device. Smith envisaged for the future what he knew to be familiar: a single man as owner-capitalist-entrepreneur. *He* took the risks, he did the innovating, he hired and fired. And he therefore reaped the rewards.

To the l8th and 19th century man it was all very clear: property meant power. The power, that is, to do certain things, the most important of which were tied directly or indirectly to making a living. That is, the owner of a factory or a mill or a farm literally dictated the terms under which others worked for him. This was one of his rights. He owned the tools and this gave him every right to say under what conditions the tools could be used. And make no mistake: from the early 19th, well into the 20th century, he exercised that power as he, and he alone, saw fit. When Cornelius Vanderbilt fumed—"the public be damned"—he apologized to no man. Not for the language, certainly not for the thought. George Baer expressed another side of this same coin when he wrote:

> The rights and interests of the laboring man, will be protected and cared for… by the Christian men to whom God in His infinite wisdom has given control of the property interests of the country.

Baer was President of the Reading Railway—and owned not a single railroad engine, car or cross tie. But he was president and he could therefore dictate how these things were to be used. God in His Infinite Wisdom had so decreed.

But this was in 1902. What about today? Where do property and power and management and labor and God in His Infinite Wisdom stand today?

Look for a minute at any large corporation—and it is to them that we do look for this economic abundance. What about General Motors? Or, the American Telephone and Telegraph Company? Or U. S. Steel? Who or what is each of these giant industrial complexes? General Motors is buildings and machines and tools. And, it is efficiency and organization. And it is imagination and foresight. And it is research and development. And so on. But who owns it? Well, nobody really does. Not in any meaningful sense does anybody own it. General Motors has over a million stockholders—but they do not own the machines and the tools. They own pieces of paper that entitle them to an income if a dividend is declared. This is their right—the right to share in the profits of General Motors.

They, as stockholders, have provided no new capital since the 1920's. And there is surely no real risk that General Motors is going to go broke.

By what right, then, do they claim a share in the profits of General Motors? What have they done to deserve income, hence, this claim on currently produced goods and services?

They are entitled to the income, because, they are entitled to it. Period. That is the way we play the game.

It is of course true that the stockholder may lose his investment, for the market price may be down when he sells. But it may also be up, and that is why so many private individuals play the stock market. They know either may happen, but they have read the signs, have plotted charts, have consulted an oracle or seer, and believe that the price of their stock is going up, up, up. In which case they can sell and come out the Big Winner, though they may be the Big Loser.

Now, I can only encourage this kind of buying and selling, for I also am an inveterate gambler. I personally prefer to play the horses. When I pick a winner in the third at Hialeah, I am tickled pink to collect $18 for each $2 that I "invested," but I do not seriously believe that I am performing a noble service for society and mankind.

As a matter of fact, if I were to hit it well, that is, really make a clean sweep, week after week at the race track, I would probably be investigated by the police, perhaps deported. But, if I did equally well playing the stock market, I would be made a deacon in the church, and, if really successful, asked to give the commencement address at some minor university. But, I digress.

Let me return to the large successful corporation—the ones to whom we do look for our economic affluence. This corporation succeeded, in large part, because it separated the fact of ownership from the function of control. For it is the professional manager, not the owner, who has the power today—i.e., the power to decide what will be produced, how many funds will be allocated to research and development, who will use the tools and under what conditions.

But this latter function is also changing. For labor has insisted that it too should have some rights in this matter.

At first, it was merely the right to argue about wages and hours. And this was a long and bitter struggle in the industrial sector of our economy. But this wasn't enough, for labor then insisted on arguing about working conditions; later fringe benefits, vacations, retirement programs, coffee breaks, etc. Most recently, about the rate at which new tools will, or will not be introduced, and the conditions under which they can be introduced. As a matter of fact, every major strike in the last decade or two has been primarily concerned with that single question: how and under what conditions will radically new and different tools be introduced? It would almost seem, would it not, that some of the more aggressive of their leaders are acting as if *they* owned the tools.

And I ask again, who does own them?

There is really no definite answer—there are other recent developments, but they only confuse the issue. Many pension funds, for example, have been investing the contributions of their beneficiaries in the common stocks of the blue chip companies. But these pension funds are only pieces of paper devoted to acquiring other earning pieces of paper in order to send retirement checks to the beneficiaries at retirement. Who now owns the tools?

Sears is an interesting case in point. Sears has a pension fund for its employees. This pension fund invests in Sears stock. One day it will own all of the stock and thus own Sears. But who owns the pension fund? Again—nobody really. But the employees have a right to an income after they quit working. And who are the employees, who is this hired help? They range from floor sweepers through the president of the company. Each is only a hired hand.

But a hired hand with certain definable and enforceable rights. And of course it is only right that at retirement, when they have all quit working and perhaps producing, the president of the company will have a larger package of these rights than the stock clerk.

There is another recent development that will confuse this issue even further. Profits have been quite good in recent years and some of the more successful corporations have been faced with the very serious problem of what to do with them.

They have dutifully given to charity, provided college scholarships, and sympathetically paid their taxes. They have bought a lot of new machines—all they really need for now. They could pay out larger dividends than in the past. But there is one hitch to this—the stockholders might come to expect these higher dividends in the future. Kinda' feel that they have a right to them, you know. So, rather than risk this chancy situation, many large corporations have been going out into the market and buying up their own stock. In this case, the stockholders are supplying a negative amount of new capital funds for this corporation.

But suppose this trend continues. Someday this corporation will have no stockholders; it will own itself. And then, who owns the machines?

And suppose also, to further confound our good senses, that this particular company is already highly automated and that this trend accelerates—as it surely will. At some point down the road it becomes completely automated. There are no employees. There are no owners. The corporation owns itself and hires nobody. Imaginary? fanciful? Perhaps. But it is a very real and grim possibility—if we insist that the concepts of property and labor are really significant.

But I ask you—does it really make any difference if the corporation is owned by 100,000 stockholders, by none, or by 190 million?

We are, in short, a society of jobholders. That is, capital and property are no longer important or meaningful as sources of power. Only prestige and income. We are all of the property less masses. More specifically, we are all proletarians. Rich, well fed, with two cars, a speed boat and a built-in dishwasher. But proletarians, nevertheless. (What we need is a new Saturday luncheon club: the Proletarian Rotarians.)

I have dwelt on the changing role of the corporation and its implications for the role of property rights to dramatize but one facet of the revolution we are witnessing. For this revolution has had, and will continue to have, repercussions through the whole of our political-social-economic-moral spectrum. What you and I have held to be true and self-evident is rapidly becoming hazy and ill-defined as a set of rules by which we can play the game of economics. For we are entering, in fact, we are being hurtled, into an era which will be as radically different from our industrial, market directed economy as that system was different from the agrarian-feudal economy that preceded it. And it would seem inescapable to me that the forces that are moving us into these uncharted and troubled waters are irreversible. That force is, of course, the rapid expansion of science which has created new and better resources, new and better machines, new and better techniques of production.

The problem is how, by what device or rules, do we divide the output of this machine dominated economy?

For roughly two hundred years we have tried to equate the right to partake of production with one's contribution to production. That is, we have relied on the so-called impersonal forces of the market to reward each factor of production according to his individual productive effort.

Now this was not difficult so long as we remained a nation of small farmers and innkeepers. Many forces, however, have long since destroyed that world. The trust, the holding company, large scale industry, the machine process, the assembly line, and Henry Ford, homogenized this productive process. And make no mistake—these very companies, General Motors, Standard Oil, U. S. Steel, Ford, were the ones that were changing the whole industrial complex. They were the innovators, the doers, the dynamic element that forced us from a nation of farmers and shopkeepers to a nation of well-to-do proletarians. But how does one measure the value of the output of the individual laborer working on the assembly line? Or, how many dividends should the stockholder receive when the savings for capital expansion are coming from the retained earnings of the corporation—earnings that are high because the company can dictate the price the consumer will pay? And Congress provides the fast tax write-offs.

The point is, of course, that we long ago abandoned any real pretext of rewarding each member of society according to his productive contribution. There is simply no way of measuring it in this complex, highly interdependent, homogenized economy.

Instead we reward each participant, and, each non-participant, according to positions of power and prestige—and these are defined by custom, tradition, prejudice, and fad. Deans make more money than professors because they are deans. I am not here to challenge their right to it; it is a simple statement of fact. We reward Negroes less than whites because that's the way it is. The same for women versus men. But, we find it almost intolerable when we discover that truck drivers make more than school teachers. Nelson Rockefeller has not worked a single day of his adult life. That is, he has contributed nothing to the economic pie and yet we reward him quite handsomely. And it bothers us not at all that he may as a result become lazy, slothful, indolent, because he doesn't have to "work" for a living.

Now the point is, we have created an economy that has an enormous potential. The amount of goods and services that we do produce is truly staggering; the amount that we could produce is beyond our ability to comprehend. I shall return to that point shortly. It is, believe me for the moment, beyond understanding.

But a simple unyielding fact remains. We will not produce it, we cannot produce it, unless somebody consumes it.

And we have very few alternatives available that will allow us to produce *and* consume it.

So we may simply have to shut the system down again as we did in the 1930's.

Or, we may plunge into that nightmare described by Orwell in his book *1984*.

You will recall, that in *1984* the country is constantly at war. No one ever knows just who the enemy currently is, or, what the war is all about, or, even for sure where it is being fought. But there is always a major war going on somewhere. And Orwell makes it chillingly clear why: A hierarchical society is possible only on the basis of poverty and ignorance. The primary aim of war, therefore, is to use up the products of the machine without raising the general standard of living. In Big Brother's words: "War is a way of shattering to pieces, or pouring into the stratosphere, or sinking in the depths of the sea, materials which might otherwise be used to make the masses too comfortable, and hence, in the long run, too intelligent." (pp. 155–7) Intelligence is thus destroyed and with it, every manifestation of political or intellectual freedom. The great mass of mankind is in a state of constant, unrelenting fear, privation and ignorance. It is a totally despotic society, ruthlessly and tyrannically dominated by Big Brother.

Orwell leaves us no alternative, for his is an attempt to show where the industrial economy must go, so long as it—the industrial economy—is linked to a system of power and prestige.

The point is quite simple. And Orwell is quite right. We cannot have both plenty and privilege. If we want economic plenty, then we must find another alternative to Orwell's.

But there are few other alternatives available to us. Limited wars and space exploration will not make a dent. The war in Viet Nam, for example, is not even using up the annual increase in the gross national product. We keep getting richer.

And from the first Mercury flights through our putting a man on the moon in 1969, the total cost will only be a piddling, miserly, $20 billion. This is more than any of us, individually or collectively, can imagine. But it represents less than 0.4% of our GNP for these same years. (UPI release, dated 10/25/65) Or in terms of ratios, the cost of these space flights to the total GNP is approximately the same as the length of time it takes me to tell it, to the total speech.

To return to our point: from whence cometh this affluence? Why is it so large? Basically, it is because research and development, the creators of productivity, are now an integral, planned, and increasingly important part of our industrial activity. As few as 10 years ago, the whole economy—private enterprise, universities, and government—devoted maybe 3–4 billion annually to research and development. Today we invest some 15 billion and that figure will approach 25 billion by the end of this decade. (Silk, p. 218)

This is of course what makes labor productive. It is what makes the land productive. It is what makes capital productive; it is why the shirt that I am wearing was once about a pint of oil. And coal dust. Oil and coal dust and knowledge, that is.

This, then, is our dilemma: Our economic system has become inordinately productive and, that production can grow at some geometric rate. But it has become impossible, literally impossible, to equate individual income to productive activity, because we can no longer measure the productive contribution of most of us.

And this is why we must find new techniques for dividing up the economic pie. And in so doing, we are going to violate many deeply held and firmly attached precepts: Early to bed . . . , A penny saved . . . , Waste not . . . , By pluck, not luck, etc.

To those of us nurtured on the writings of Horatio Alger and Ben Franklin, these are familiar and comfortable guidelines. And I emphasize again, these were an orderly and efficient set of rules or guidelines at one stage of the game. But if this is the only set of rules that we can devise for the immediate future, then we are in serious trouble—perhaps that so pessimistically outlined in Orwell's nightmare.

Increasing productivity must mean shorter work weeks, more coffee breaks, more featherbedding, earlier retirement, longer vacations, and bigger dividends. Such devices as these are familiar enough to be readily adopted as short-run tactics.

But tactics for what? To justify, to rationalize, to ourselves an increasing annual income.

I met a fellow camper this last summer who had 13 weeks paid vacation. That is 3 months out of every year. And how did he accomplish this? By working in a steel mill. The extended vacation was an agreed upon tactic or device to distribute the fruits of automation. He didn't receive this vacation because of his productive activity—but because of his position of power within the productive process.

My point, however, is that devices such as this, are not alone going to be enough, because not all nonproductive participants have that kind of power.

For, if I read the future in terms of a most conservative rate of increase in our growth, and in terms of our current rules of the game, then something has to change. If we are in fact to realize our full potential in economic growth, if we are not to waste it in an Orwellian orgy of never ceasing world war, then we must find newer techniques that will allow everybody to share equitably. For who is, and who is not productive, has ceased to have any meaning as a measure of distributing that production. And power plays alone will not solve the problem into the indefinite future because power plays are only a reflection of our past customs, prejudices, habits.

And when I say everybody, I stress I mean just that: white and black, old and young, lazy and energetic, the quick and the slow, the bright and the dull, Democrats and Republicans, socialists and Unitarians and vegetarians, high school teachers and street sweepers. All must enjoy a comfortable material existence. Some better than others, undoubtedly, but there is no longer any need to be in want of material things. And let me again remind you—either we find techniques to do for everybody, or we won't have it long for anybody.

How do you assess this prediction? Pie in the sky? Day-dreaming? An impossible utopia? Perhaps subversive? I cannot answer that, but let's take note of some important statistics and data before you do.

The total output of goods and services should continue to grow at an annual rate of about 3.5%. And based on past trends, this is probably a conservative estimate.

Our population may continue to grow at the same rate that it did following World War II, about 1.75%—though there is every indication that this rate is falling off. Conservatively, however, the total output will grow about twice as fast as the population.

Now if we project our present *per capita* standard of living—which by any measure is quite high—then we can readily see that there is going to be a surplus. We are going to produce much more in the future than at present. How much more?

Well, quite a bit. Before estimating how much, let's look at that future production. What is it as we look at it today? It is resources, labor, capital goods. It is mostly know-how. What we will in fact produce depends on how you and I choose to use this productive capacity. And the important point is that we do have some choice. We do have alternatives. We can, and we will, use it to produce more houses and ice cream cones and more dishwashers and more schools and more factories. We can also use it to stimulate the economies of West Virginia or the West Indies. We can use it to wage eternal war ala Orwell.

But, you quite rightly ask, just how much choice do we have?

Over the next 25 years, over and above our present per capita standard of living, we will have a total of some $5.5 trillion in extra productive capacity available. Let me make this point quite clear: $5.5 trillion over and above our present per capita share of the GNP—to do with as we see fit, without giving up anything, without tightening our belts.

That is an incomprehensible amount of goods and services. I would also emphasize that this is probably a conservative estimate.

And, if my assessment of the future is at all correct, we are faced with a serious dilemma. We must, I believe, choose from among alternatives when the standards by which we make such choices are not known to us today. But in what directions are we to move?

I personally see no *absolute* obstacle to our realizing the fullest opportunities of a truly free society.

But human dignity and freedom can no longer be based on land and farming and the right to quit a job—as Thomas Jefferson and Adam Smith understood those relationships.

Freedom and dignity—and the two are inseparable—must today be based on the fruits of the machine. That is, not on the right to own and use land, not on the right to quit a job, not on the right to strike, but on the right to share in the benefits of an industrial economy.

So long as man was bound in servitude to the chains of economic scarcity, and so long as few held keys to the prison, then most were never truly free, for most could not risk the penalty of economic starvation or privation. Today we have the means available to provide freedom from want and privation. We therefore have the means to provide for freedom from the prejudice and ignorance and intolerance of others.

But freedom for what? This is the major task to be defined in these last decades of the 20th century. Freedom of speech, assembly, freedom of association and of ideas. Freedom to dissent from, or agree with, the views of the majority. Freedom to worship what, where, and when the conscience dictates. Freedom to favor openly Johnson or Goldwater or Irving Chesterton, the vegetarian candidate. Freedom to think, to write, to express views—in short, to dissent, to act, to create. To be truly a human being. To enjoy abstract art and the watusi, or to reject both for Whistler and the waltz. Freedom to associate with Negroes, to have them in the home, to marry them.

We can—*if* we wish—provide for the economic well-being of all men. All men today in the U.S., tomorrow in Western Europe, Japan, and the Soviet Union. The day after tomorrow in the rest of the world.

But can we truly tolerate that much economic freedom? Orwell said "No." He felt that only by imposing a hierarchical power structure of the few over the many could mankind tolerate the abundance of the industrial economy.

But Orwell had no crystal ball. The future is in large part what we choose it to be. At least it is in some part. And the choice can still be made. But time is running out. We cannot postpone these choices interminably. "The Moving Finger writes, and having writ, moves on: nor all your Piety nor Wit shall lure it back to cancel half a line, Nor all your Tears wash out a Word of it."

How are we to assay the cry of the Negro during the long hot nights of the Watts riot: "Burn, baby, burn!" The senseless, wanton, destruction of white man's property. The striking back by maids and servants and doormen. Is this an augury, a harbinger of our unfolding dilemma?

What, then, are we to do with this productive mechanism?

Now I do not personally believe that our contemporary society, our personal, *selfish* devotion to television and golf, to the fast buck and faster cars, really adds up to the final meaning of man. We can surely do something better than this. There is surely something in humanity that is more and better than the motivation of acquiring a second dishwasher.

In sum, we have unlocked the doors of the prison. We are free from the depressing and heartless limits of the barren turnip patch. But free for what?

Free, perhaps, in the truest sense as envisioned by Jefferson.

That is, this economic mechanism can free each person from want, cold, privation. Irrespective of his “productive contribution” as measured in the market, the unemployed, the artist, the freethinker, the dissenter, the iconoclast, could be free to create, to innovate, to tinker, to dream, to do nothing "productive." For the age-old question—who is worth more to society, the king or the soldier, the merchant or the teacher, the physicist or the songwriter, the stockbroker, Nelson Eddy, or Nelson Rockefeller, is no longer a meaningful question.

The really hard question is whether we can in fact adjust to the demands; can we, can you and I, truly tolerate a free economic society, no less a free society?

INSTITUTIONAL THEORY AND ECONOMIC PLANNING

Paper presented the Southwestern Economics Association Meetings, Houston, Texas, April 3, 1980.

COMMENTARY BY SUSAN DADRES

In this paper, Cochran asserts that the worst consequence of neoclassical theory is its defense of the *status quo* and the existing distribution of income and property rights. He does not accept that the Keynesian revolution was truly a revolution because it ultimately offered a way to preserve the *status quo* as well. His analysis of the Marxist model leads to the observation that it offers a glimpse of utopia, but no road map of how to get there.

Cochran offers the optimistic view that the institutionalist approach may allow us to stop stumbling through darkness and take control of the path we take through economic planning. There is no end point, only a process as society confronts new problems each day. Thus, it is imperative that economists use their skills to solve the problems of the future. For the institutionalist, economic planning does not destroy freedom because the goal is to be compatible with the public interest. Cochran ends by quoting Dan Fusfeld, who stressed that a humane economy must go beyond an efficient allocation of resources to achieve greater equality and freedom. Cochran agrees that the institutional economist must be an active critic and reformer.

INSTITUTIONAL THEORY AND ECONOMIC PLANNING

We have been asked to prepare short position statements on the general subject of the relationship between institutionalist theory and the formation of economic policy. This is an easy position to take, for not only is there a clear link; it is the only link. That is to say, institutional economics can be understood only as a basis for policy making, economic planning, social and economic reform—call it what you will. And equally true, any form of broad socio-economic-political reform, would find its ideological home only in an institutionalist atmosphere. There really is no other. And that is why the standard mainstream economist could never really comprehend what institutionalism was all about—committed as he was to *a priori* position that denied the possibility of broad socio-economic planning. This paper will be an expansion of these introductory statements.

The basic neoclassical analysis offers essentially one kind of economic policy—to make the market mechanism more efficient; that is more competitive. This, of course, is a kind of economic planning or policy formulation, but of a very limited scope.

The Austrian school, on the other hand, is even more limited in its policy applications, since it insists that *laissez faire* is the universal answer to all economic problems. As a matter of fact, any economic problem that seems to exist, is in fact only a consequence of having violated that *laissez faire* dictum. If we would only leave well enough alone, then the eternal laws of nature would produce the best of all possible equilibria; all that remains for mere man to do is to do absolutely nothing. The best of all possible worlds can be ours, and we do not have to do anything. Presumably we do not even have to pray for it, since it is inexorably going to be.

(As an aside, I've often wondered whether or not most Austrians carry their economic assumptions to the logical conclusion of also being Unitarians. Perhaps a viable research project is hidden there.)

But to more serious and immediate explorations: according to most institutionalist criticisms, this neoclassical position had far graver consequences than merely doing nothing, or essentially nothing. Specifically, the key normative concepts of the neoclassical, and the narrower Austrian, systems—rationality, optimality, efficiency, natural law, the ultimate beneficent effects of free market forces, all melded together to lend strong ideological support to private property, rugged individualism, *laissez faire*, and thus evolved into a justification and defense of the status quo in the distribution of income and property rights (Deane, pp. 98–100).

Rooted in individualism, economic analysis thus became little more than a formal extension of the *a priori* conclusion that the welfare of society is no more than the sum of individuals each pursuing their individual selfish ends, checked only by the selfish actions of other individuals doing the same thing. In other words, the competitive market becomes the ultimate register of social value, and therefore, the *only* means available of maximizing the welfare of society.

Thus, neoclassical price theory in an attempt to dislodge Marx's extension of classical economics and become *value free*, became instead, *value-defensive*.

Onto this limited concept of economic planning or policy formation was grafted the so-called Keynesian revolution. The more flexible and open-minded of the standard neoclassical economists were now freed from some of the proscriptions regarding economic interference and were thereby permitted to devise policies aimed at interfering with the market mechanism—but only at the macro level. That is, economic policy was confined to adjusting government fiscal and monetary operations in an attempt to alter effective demand, hoping thus to manipulate the overall levels of income, output, employment, and prices. A rather grandiose failure in recent years, I would personally observe. But never mind, rarely in the history of our discipline has failure, in a practical or applied sense, made much of an impact on the beliefs of the faithful. But within the narrow confines of fiscal and monetary manipulation, the mainstream remained more or less good neoclassical economists committed to leaving the market alone.

There remains the Marxist alternative. While it has had many variations and adaptations since the mid-nineteenth century, the essential ingredients remain substantially the same. In one way or another, the capitalist system has exploited the individual laborer and alienated labor from the fruits of its efforts. And while it may be peaceful or violent, nothing short of a revolution will solve the enduring malfunction of capitalism. Utopia is always just around the corner, just over the next barricade. But as alluring and promising as it always seems to be, there is never a very clear map of how to get there. Only a bright kaleidoscope of what is there.

There remains only one broadly based, clearly defined approach to problems of social policy, justice or welfare, to socio-economic-political reform. And that is the institutionalist school of economics.

There are many distinguishing features of this way of thinking. And in the few minutes at my disposal, I shall identify what I consider to be the most important—as they relate to economic planning and reform, to the formation of economic policy.

What, then, is institutional economics? It is first, a shift away from the search for universal, everlasting laws, government a fixed and ordered universe. It is, as Dave Hamilton has so well documented, a shift from the universe of Newton which is fixed, stable and predictable, to an ever-changing mélange of Darwin, Einstein and Dewey, here there are no universal laws governing man and society applicable at all times and all places, there are, rather, specific problems or malfunctions in a changing and complex world where, as Myrdal has emphasized, each generation acquires a new and frustrating assortment of socio-economic-political malfunctions.

It is in this experimental context that Rex Tugwell defined economic theory as "sustained thought of some difficulty of practice." It is, he said, "the attempt of trained intelligences to come to grips with the problems that are crucial for modern life." In other words, as we try to deal effectively with current malfunctions, as we try to find answers to current problems, then theory is what results. It was from exactly this same pragmatic platform that Commons defined ideas as being "springboards for action," and assumptions as "guides to action, " and science itself "not as a body of knowledge, but as a process of attaining control."

The institutionalists thus accept socioeconomic change and flux as the very subject matter of their inquiry—insisting further, that this change is not random, not haphazard, not blind stumbling, not merely the unwinding of natural law, but in some degree subject to orderly control and direction. In other words, as social man became aware of this socio-evolutionary process, he became aware of the fact that it was not merely blind stumbling; this process of cumulative change was subject to guidance and direction by man himself. He alone among all creatures had some control over his own destiny, the figure was in part, of his own making. And incidentally, this is exactly why an institutionalist such as Myrdal insists that ours is ultimately a moral science: because the values of the scientist must be explicitly recognized and integrated into any form of social-economic-political inquiry (Myrdal, *Objectivity in Social Research*, p. 4). I shall return to this point in closing.

What, then, is economic planning according to the institutionalists? Actually, there is really fairly wide agreement on this point. As Mitchell once commented, "in the life of the nation, planning plays the role that thinking plays in individual life. Both processes are resorted to typically to find ways of surmounting difficulties that occur in the course of routine behavior." (*Intelligence...*, p. 129).

And in Tugwell's words, economic theory and analysis cannot escape "their responsibility for policy. Economics is still social economics, the test of its significance lies in the field of social action" (*Human Nature*, 477). It is "through gradual and experimental change" that we replace "social drift" in order to "mold our social and economic environment so as to reap the largest possible rewards" (*Our Econ. Society*, 541).

In strikingly similar fashion, Ayres pointed out that when we finally realized that institutional change is susceptible to intelligent control, then "social drift and automatism" were replaced by "organized human intelligence, " (*The Role of Tech.*, 285), that is, as society grew and developed, creative intelligence played a vital role and "will do so increasingly, as knowledge and understanding grow, economic planning is no more and nothing less than the working of this universal law, for planning is a function of knowing, in economics no less than in all other affairs." In sum, while "dogmas have a way of becoming obsolete, … , planning goes on forever" (*Indus. Econ*., 186–202 *passim*).

The institutionalist obviously conceives of economic planning in a very broad and inclusive fashion. It includes the idea of control, of regulation, of direction; it includes also, the idea of conscious reform of the economic system: and it also includes the setting of goals and finding ways to attain them.

Essentially, the basic issue is one of automatism versus human direction. Thus, it was that Mitchell proposed that we "organize ourselves for deliberate and systematic study of social problems." The central task, Mitchell argued, is "not at finding a 'solution,' but finding methods by which communities can carry on intelligently the process of working out the endless series of detailed solutions with which they must keep experimenting" (*Intelligence and* … p. 130-131).

This is precisely the kind of economic planning that Marc Tool has more recently described as a continuous and ongoing, "trial and error process" in which "inquiry is induced… analysis is offered… causal explanation is provided… predictions appraised...choices made… shifts recommended… trial runs started...consequences observed and assessed." In other words, for the institutional economist, such as Tool, the question to be answered "is not shall there be planning, or won't planning destroy freedoms." Instead, "we pose questions of the following kind: ‘who is doing the planning? For what purposes is planning being undertaken? Are such purposes compatible with the public interest?’, etc.” (*Discretionary Economy*, p. 149)

In other words, planning and policy formulation is what institutional economics is all about.

And planning for what? Well, for a wide variety of openly normative readjustments of the market-dominated society, if only such normative statements could be elicited, but I think representative would be one of Dan Fusfeld's:

> A humane economy requires more than prosperity and economic growth, more than (just the) efficient allocation of resources, it demands changes in the framework of economic institutions to achieve greater equality and freedom, …the dispersal of economic power and governmental authority that support the present disposition of income, wealth, and power …, a social environment that brings a sense of community and fellowship into human relationships, compatibility among man, his technology, and the natural environment, …These are the goals of the future, to which economists and everyone else will have to devote their energies (*Post-Post-Keynes: The Shattered Synthesis*, quoted in Tool, p. 315).

The institutional economist thus purposefully and openly adopts an instrumentalist-normative point of view toward the socio-economic-political process. It is his responsibility, *as an economist,* to assist in that evolutionary growth and development, in the enlargement of socially defined opportunities, but this enlargement can be realized only through collective action, only through the continuous modification of institutions, the habits of thought, the customs, the system of rights and privileges and responsibilities that guide our everyday actions.

The institutional economist is thus committed to this instrumental, active, participating role of critic and reformer.

As Walton Hamilton said many years ago, “the task of keeping industry, the instrument of society, is as arduous as it is everlasting."

Thus, what ostensibly began as an attempt to formulate a value-free inquiry by the Austrians, became instead, value-defensive. Now, at the hands of the institutionalists, it becomes openly value-committed.

References

Hamilton, Walton, and Irene Till, “Antitrust—The Reach after New Weapons,” *Washington University Law Quarterly,* Issue #1, 1940, p. 26.

ECONOMIC THEORY: FROM VALUE-FREE TO VALUE-DEFENSIVE TO VALUE-COMMITTED

A paper presented at the annual meeting of the Atlantic Economic Society, Boston, Mass., October 10, 1980.

COMMENTARY BY SUSAN DADRES

In this paper, Cochran maintains that institutional economics was never well-received because it was designed to serve as the basis for social and economic reform instead of supporting the *status quo* of *laissez-faire*. Supporters of the *status quo* frequently place the blame for economic problems and inefficiencies on the government's interference with the market mechanism. In his first Inaugural Address, given a few short months after this paper was presented, President Reagan famously said "government is not the solution to our problem; government is the problem." This quote exemplifies the prevailing attitudes of the *status quo* which Cochran was questioning. Today, society continues to question whether government is the problem or the solution, making it almost impossible for policymakers to implement needed reforms and solutions.

Because the neoclassical orthodoxy "evolved into a justification and defense of the *status quo* in the distribution of income and property rights," it is labeled by Cochran as *value-defensive* rather than *value-free*. He goes on to point out that even the Keynesian revolution was not all that revolutionary since it advocated government intervention on a very limited basis and only on the macroeconomic level.

Cochran suggests that the Institutional School of Thought is the only "broadly based, clearly defined approach to problems of social policy, justice or welfare." Citing Dr. David Hamilton, Cochran agrees that Institutionalism is a shift from the fixed, stable and predictable universe of Newton to the ever-changing mélange of Darwin, Einstein, and Dewey. In the last few pages of the paper, the works of Rex Tugwell, Gunnar Myrdal, Wesley Mitchell, Clarence Ayres, Adolph Lowe, Marc Tool, and other prominent Institutionalists are quoted and applied by Cochran to strengthen his points to return to "an openly normative, moral science."

ECONOMIC THEORY: FROM VALUE-FREE TO VALUE-DEFENSIVE TO VALUE-COMMITTED

The theme of this conference of the Atlantic Economic Society is the *Firing Line*: "When there is conflict and controversy, it is time to be counted." There is indeed conflict and controversy within the economics profession and between the economics profession and the world at large because of the inability of current theory to provide viable answers to current malfunctions in the economy. This paper will focus in the historical evolution of economic theory and value judgments and their role in the formation of economic policy. It will concentrate on the relatively unknown American institutionalist school and will conclude that this approach provides an actively viable basis for policy making, for economic planning or reform. In fact, it will be our major thesis that institutional economics can be understood only as a basis for policy making, economic planning, social and economic reform—call it what you will. (And incidentally, this is probably why institutional economics was never well received within the mainstream of the evolution of economic thought. It was simply not in tune with the time which was still overwhelmingly committed to *laissez faire*.) But not only is institutional economics to be understood *only* as a basis for some form of economic planning, it is equally true that any form of broad socio-economic-political reform would find its ideological home only in an institutionalist atmosphere. There really is no other. And that is why the standard mainstream economist could never really comprehend what institutionalism was all about—committed as he was to an *a priori* position that denied the possibility of broad socio-economic planning. This paper will be an expansion of these introductory statements.

The basic Neoclassical analysis offered essentially one kind of economic policy—to make the market mechanism more efficient, that is, more competitive. This, of course, is a kind of economic planning or policy formulation, but of a very limited scope.

The Austrian school, on the other hand, was—and is—even more limited in its policy applications, since it insists that *laissez faire* is the universal answer to all economic problems. As a matter of fact, any economic problem that seems to exist, is in fact only a consequence of having violated that *laissez faire* dictum. If we would only leave well enough alone, then the eternal laws of nature would produce the best of all possible equilibria as Adolph Lowe has suggested, "in that vanished world of *laissez faire*, the economist differed little from that of the astronomer. He was a passive observer, and his predictions, correct or incorrect, did not affect the course of events any more than did the incantations of a shaman." ("What is Evolutionary Economics, " p. 241.) All that remained for mere man to do was to do absolutely nothing. The best of all possible worlds could be ours and we do not have to do anything. Presumably we do not even have to pray for it, since it is inexorably going to be.

(As an aside, I've often wondered whether or not most Austrians carry their economic assumptions to the logical conclusion of also being Unitarians. Perhaps a viable research project is hidden there.)

Rooted in individualism and the natural rights philosophy of Bentham and Smith, economic analysis thus became little more than a formal extension of the *a priori* conclusion that the welfare of society is no more than the sum of individuals each pursuing their individual selfish ends, checked only by the selfish actions of other individuals doing the same thing. In other words, the competitive market becomes the ultimate register of social value, and therefore, the only means available to maximize the welfare of society.

But to more serious and immediate explorations: according to most institutionalist criticisms, this neoclassical position had far graver consequences than merely doing nothing, or essentially doing nothing. Specifically the key normative concepts of the neoclassical and the narrower Austrian systems—rationality, optimality, efficiency, natural law, the ultimate beneficent effects of free market forces—all melded together to lend strong ideological support to private property, rugged individualism, *laissez faire*, and thus evolved into a justification and defense of the status quo in the distribution of income and property rights. (Deane, pp. 98–100)As Marc Tool has observed, even Paretian optimality "is not ethically neutral as presumed. Its intended application tends to perpetuate the status quo. What is, becomes a criterion of what ought to be." ("Social Value Theory of Orthodoxy: A Review and Critique, p. 320)

Thus, neoclassical price theory in an attempt to dislodge Marx's extension of classical economics and become *value free*, became instead, *value-defensive*.

Onto this limited concept of economic planning or policy formation was grafted the so-called Keynesian revolution. The more flexible and open-minded of the standard neoclassical economists were now freed from some of the proscriptions regarding economic interference and were thereby permitted to devise policies aimed at interfering with the market mechanism—but only at the macro level. That is, economic policy was confined to adjusting government fiscal and monetary operations in an attempt to alter effective demand, hoping thus to manipulate the overall levels of income, output, employment, and prices. (A rather grandiose failure in recent years, I would personally observe. But never mind, rarely in the history of our discipline has failure, in a practical or applied sense, made much of an impact on the beliefs of the faithful), but within the narrow confines of fiscal and monetary manipulation, the mainstream remained more or less good neoclassical economists committed to leaving the market alone.

There remains the Marxist alternative. While it has had many variations and adaptations since the mid-nineteenth century, the essential ingredients remain substantially the same. In one way or another, the capitalist system has exploited the individual laborer and alienated labor from the fruits of its efforts. And while it may be peaceful or violent, nothing short of a revolution will solve the enduring malfunction of capitalism. Utopia is always just around the corner, just over the next barricade. But as alluring and promising as it always seems to be, there is never a very clear map of how to get there. Only a bright kaleidoscope of what is hopefully there.

There remains only one broadly based, clearly defined approach to problems of social policy, justice or welfare, to socio-economic-political reform. And that is the institutionalist school of economics.

There are many distinguishing features of this way of thinking, and in the few minutes at my disposal, I shall identify what I consider to be the most important—as they relate to economic planning and reform, to the formation of economic policy.

What, then, is institutional economics? It is first, a shift away from the search for universal, everlasting laws, government a fixed and ordered universe. It is, as Dave Hamilton has so well documented, a shift from the universe of Newton which is fixed, stable and predictable, to an ever- changing mélange of Darwin, Einstein and Dewey. (*Newtonian Classicism…*) Here there are no universal laws governing man and society applicable at all times and all places, there are, rather, specific problems or malfunctions in a changing and complex world where, as Myrdal has emphasized, each generation acquires a new and frustrating assortment of socio-economic-political malfunctions.(*Objectivity in Social Research*, *Against the Stream*)

It was in this experimental context that Rex Tugwell defined economic theory as "sustained thought of some difficulty of practice." It is, he said, "the attempt of trained intelligences to come to grips with the problems that are crucial for modern life." In other words, as we try to deal effectively with current malfunctions, as we try to find answers to current problems, then theory is what results. It was from exactly this same pragmatic platform that Commons defined ideas as being "springboards for action," and assumptions as "guides to action, " and science itself "not as a body of knowledge, but as a process of attaining control." Gunnar Myrdal has emphasized this same point when he insisted that "facts do not organize themselves into systematic knowledge, except from a point of view, that point of view amounts to a theory—theory being understood in the only meaning it can have: a logically consistent system of questions to the social reality we are studying." (*Against the Stream*, p. 134.)

The institutionalists thus accept socio-economic change and flux as the very subject matter of their inquiry—insisting further, that this change is not random, not haphazard, not blind stumbling, not merely the unwinding of natural law, but in some degree subject to orderly control and direction. In other words, as social man became aware of this socio-evolutionary process, he became aware of the fact that it was not merely blind stumbling; that this process of cumulative change was subject to guidance and direction by man himself. He alone among all creatures had some control over his own destiny. The future was in part, of his own making. And incidentally, this is exactly why an institutionalist such as Myrdal insists that ours is ultimately a moral science: because the values of the scientist must be explicitly recognized and integrated into any form of social-economic-political inquiry (Myrdal, *Objectivity in Social Research*, p. 4,) I shall return to this point in closing.

What, then, is economic planning according to the institutionalists? Actually, there is really fairly wide agreement on this point. As Mitchell once commented, "in the life of the nation, planning plays the role that thinking plays in individual life. Both processes are resorted to typically to find ways of surmounting difficulties that occur in the course of routine behavior." (*Intelligence ....* , p. 129)

And in Tugwell's words, economic theory and analysis cannot escape "their responsibility for policy. Economics is still social economics. The test of its significance lies in the field of social action" (*Human Nature*, 477).It is "through gradual and experimental change" that we replace "social drift" in order to "mold our social and economic environment so as to reap the largest possible rewards" (*Our Econ. Society*, p. 541).

In strikingly similar fashion, Ayres pointed out that when we finally realized that institutional change is susceptible to intelligent control, then "social drift and automatism" were replaced by “organized human intelligence.”(*The Role of Tech*., p. 285). That is, as society grew and developed, creative intelligence played a vital role and "will do so increasingly, as knowledge and understanding grow. Economic planning is no more and nothing less than the working of this universal law, for planning is a function of knowing, in economics no less than in all other affairs."

In sum, while "dogmas have a way of becoming obsolete, . . . Planning goes on forever" (*Indus. Econ*., 186–202 *passim*).

The institutionalist obviously conceives of economic planning in a very broad and inclusive fashion. It includes the idea of control, of regulation, of direction; it includes also, the idea of conscious reform of the economic system; and it also includes the setting of goals and finding ways to attain them. Essentially, the basic issue that separates the institutionalist school from the mainstream is the issue of human direction versus automatism. It was from this point of view that Wesley Mitchell in the mid-1930's proposed that we "organize ourselves for deliberate and systematic study of social problems." The central aim, Mitchell argues, is "not at finding a 'solution,' but finding methods by which communities can carry on intelligently the process of working out the endless series of detailed solutions with which they must keep experimenting." (*Intelligence* ... , p. 130–131.) And only this last year, Adolph Lowe in accepting the annual Veblen-Commons award from the Association for Evolutionary Economics, emphasized this same point when he noted that

> Even if the specter of *laissez faire* still haunts some lecture halls, we live in an era in which the many ill-fated effects of the free play of economic forces are no longer accepted as acts of god, and in which the processes of the market are progressively subjected to public control. With this shift in public attitude, the role of economics has undergone an equally drastic change. From a medium of passive contemplation, it is being converted into a tool of active interference. (*What is Evol*. ... , p. 249)

This is precisely the kind of economic planning that Marc Tool has recently described as a continuous and ongoing, "trial and error process" in which "inquiry is induced ... analysis is offered causal explanation is provided ... predictions appraised choices made ... shifts recommended... trial runs started ... consequences observed and assessed." In other words, for the institutional economist, such as Tool, the question to be answered, "is not shall there be planning, or won't planning destroy freedoms." Instead, "we pose questions of the following kind: 'who is doing the planning' for what purposes is planning being undertaken? Are such purposes compatible with the public interest?" etc. (*Discretionary Economy*, p. 149)

In other words, planning and policy formulation is what institutional economics is all about.

And planning for what? Well, for a wide variety of openly normative readjustments of the market-dominated society. Many such normative statements could be elicited, but I think representative would be one of Dan Fusfeld's:

> A humane economy requires more than prosperity and economic growth, more than just the efficient allocation of resources. It demands changes in the framework of economic institutions to achieve greater equality and freedom. . . . the dispersal of economic power and governmental authority that support the present disposition of income, wealth, and power . . . a social environment that brings a sense of community and fellowship into human relationships . . . compatibility among man, his technology, and the natural environment. . . . These are the goals of the future, to which economists and everyone else will have to devote their energies, (*Post-Post-Keynes: The Shattered Synthesis*, quoted in Tool, p, 315.)

The institutional economist thus purposefully and openly adopts an instrumentalist-normative point of view toward the socio-economic-political process. It is his responsibility, *as an economist*, to assist in that evolutionary growth and development, in the enlargement of socially defined opportunities. But this enlargement can be realized only through collective action, only through the continuous modification of institutions, the habits of thought, the customs, the system of rights and privileges and responsibilities that guide our everyday actions.

The institutional economist is thus committed to this instrumental, active, participating role of critic and reformer.

As Walton Hamilton said many years ago, "the task of keeping industry, the instrument of society, is as arduous as it is everlasting."

Thus, what ostensibly began as an attempt to formulate a value-free inquiry by the Austrians, became instead, value-defensive. Now, at the hands of the institutionalists, it becomes openly value-committed. It comes full circle to where it began in 1776—an openly normative, moral science.

References

Clarence E. Ayres, *The Industrial Economy: Its Technological Basis and Institutional Destiny*, (Boston: Houghton Mifflin Co., 1952).

———, "The Role of Technology in Economic Theory, " *American Economic Review*, May, 1953.

Phyllis Deane, *The Evolution of Economic Ideas* (New York: Cambridge University Press, 1978).

David Hamilton, *Newtonian Classicism and Darwinian Institutionalism*, Albuquerque: The University of New Mexico Press, 1953, 1976.

Robert Heilbroner, "Introduction of Adolph Lowe Veblen-Commons Award, " *Journal of Economic Issues*, June, 1980.

Adolph Lowe, "What is Evolutionary Economics, " *Journal of Economic Issues*, June 1980.

Wesley Mitchell, "Intelligence and the Guidance of Economic Planning, " reprinted in The *Backward Art of Spending Money* (New York: Augustus M. Kelley, 1950).

Gunnar Myrdal, *Against the Stream*, (New York: Pantheon Books, 1973).

———, *Objectivity Social Research* (New York: Random House, 1969).

Marc R. Tool, *The Discretionary Economy: A Normative Theory of Political Economy*, Santa Monica, California: Goodyear Publishing Company, 1979.

———, "The Social Value Theory of Orthodoxy: A Review and Critique," *Journal of Economic Issues*, June 1980.

Rexford G. Tugwell, *Our Economic Society and its Problems* (New York: Harcourt Brace & Co., 1935.

———, "Human Nature in Economic Theory," *Journal of Political Economy*, June 1922.

THE EPISTEMOLOGICAL FOUNDATIONS OF AMERICAN INSTITUTIONALIST THOUGHT AND THE ROLE OF ASSUMPTIONS IN THE FORMATION OF ECONOMIC POLICY

Paper presented at the Meeting of the Atlantic Economic Society, London School of Economics, London, England, August 17, 1981.

COMMENTARY BY DAVID MOLINA

If there is a sentence in this article that lies at the heart of the matter, it is the one where Cochran states, "Neoclassical price theory is an attempt to dislodge Marx's extension of classical economics and become value-free, but instead became value defensive." Seldom has an author narrowed into one sentence the critique of an entire theory. His point is that in asserting the importance of free markets, neoclassical theory falls into the tautology that all good comes from free markets and all bad comes from the lack thereof. Cochran also, and correctly, emphasizes that Austrian economics take this dogma to its logical extreme.

Cochran agrees with Dewey and Commons that economic theory is

> "… not a series of abstract generalizations about assumed market conditions, but programs for action, plans to be carried out, reforms to be implemented-all centered on the central issue of alleviating stress, surmounting difficulties, finding alternative experimental solutions to today's socioeconomic problems."

This is, in effect, an instrumentalist position—one that Institutionalism should embrace.

As such, he argues that because the instrumentalist view makes an *a priori* assumption for the Institutionalists, their school of thought can be understood "… ONLY as a basis for policy making. Institutionalism can be understood only as a basis for planning which is why it is so misunderstood by mainstream economists whose *a priori* position denies the possibility of planning."

The neoclassical view is to make the market mechanism more efficient. The Austrian view, as far as policy is concerned, is even more limited because the government is seen as the source of all problems. Keynesian economics does attempt to remedy market imperfections by only concentrating on the macro aspect, thus allowing for many problems to go untouched. The Marxist alternative offers only a view of the breakdown of the market economy, and the hope for utopia in the future, but no clear outline of how we can get there.

Given the shortcomings of these other schools of thought, this leaves us with the Institutionalist School as the only one that deals with issues of economic policy. Hence, Cochran argues that science should be viewed "not as a body of knowledge (Neoclassical view), but as a process of attaining control (the instrumental Institutionalist view)." The Institutionalist is concerned with change. And not only change, but how to steer the evolution of thought. Man does not have to stumble through this change. He can become aware of his knowledge and guide his efforts. This evolutionary approach to economic policy, then, is the ultimate goal and contribution of the Institutional School of Economic Thought!

THE EPISTEMOLOGICAL FOUNDATIONS OF AMERICAN INSTITUTIONALIST THOUGHT: THE ROLE OF ASSUMPTIONS IN THE FORMATION OF ECONOMIC POLICY

The title of this paper as listed in the program was little more than a statement of optimistic expectations last spring. What we have for a fifteen minute presentation today is far less ambitious. But that is the position of this paper: in sum, the central and unifying theme of the American Institutionalist School was a concern for socio-economic planning or reform that stemmed from the instrumentalist philosophy of John Dewey. It was conspicuously and consciously normative and value-committed.

John R. Commons, one of the better known of the institutionalists, emphasized this instrumentalist position when he said

> The method of the historical science, and therefore of economic science, is the process of analysis, genesis, and, insight ... A process of attaining control over the forces of nature by better knowledge of the ways in which these forces operate. As Dewey has said, "ideas are statements not of what is or has been—but of acts to be performed." (Commons, *Institutional Economics*, p. 747.)

Thus economic theory, according to these economists, was not a series of abstract generalizations about assumed market conditions, but programs for action, plans to be carried out, reforms to be implemented—all centered on the central issue of alleviating stress, surmounting difficulties, finding alternative experimental solutions to today's socio-economic problems. Based upon this epistemology, economic theory and analysis became exploratory, investigative, experimental—useful.

The institutionalists adopted this instrumentalist position as their *a priori* point of departure. It was their set of given assumptions. And it is from this position that institutional economics can be understood only as a basis for policy making, economic planning, social and economic reform—call it what you will. (And incidentally, this is probably why institutional economics was never well received within the mainstream of the evolution of economic thought. It was simply not in tune with the times which were overwhelmingly committed to *laissez faire*.) But not only is institutional economics to be understood only as a basis for economic planning, it is equally true that any form of broad socio-economic-political reform would find its ideological home only in an institutionalist atmosphere. And that is why the standard mainstream economist could never really comprehend what institutionalism was all about—committed as he or she was to an *a priori* position that denied the possibility of broad socio-economic planning. This paper will be an extension of these introductory statements.

The basic neoclassical analysis led essentially to one kind of economic policy—to make the market mechanism more efficient. That is, more competitive. This of course is a kind of economic planning or policy formulation, but of a very limited scope.

The Austrian school, on the other hand, was—and indeed is—even more limited in its policy applications, since it insists that *laissez faire* is the answer to all economic problems. As a matter of fact, any economic problem that seems to exist is in fact only a consequence of having violated that *laissez faire* dictum. If we would only leave well enough alone, then the eternal laws of nature would produce the best of all possible equilibria. As Adolph Lowe has suggested, "in that vanished world of laissez-faire, the economist differed little from the astronomer. He was a passive observer, and his predictions, correct or incorrect, did not affect the course of events any more than did the incantations of a shaman." ("What is Evolutionary Economics," p. 241.) All that remained for a mere man to do was to do absolutely nothing. The best of all possible worlds could be ours, and we do not have to do anything.

Presumably we do not even have to pray for it, since it is inexorably going to be.

(As an aside, I've often wondered whether or not most Austrians carry their economic assumptions to the logical conclusion of also being Unitarians. Perhaps a viable research project is hidden there.)

Rooted in individualism and the natural rights philosophy of Bentham and Smith, economic analysis thus became little more than a formal extension of the *a priori* conclusion that the welfare of society is no more than the sum of individuals each pursuing their individual selfish ends, checked only by the selfish actions of other individuals doing the same thing. In other words, the competitive market becomes the ultimate register of social value, and therefore, the *only* means available to maximize the welfare society.

But to more serious and immediate explorations: according to most institutionalist criticisms, this neoclassical position had far graver consequences than merely doing nothing, or essentially doing nothing. Specifically, the key normative concepts of the neoclassical, and the narrower Austrian, systems—rationality, optimality, efficiency, natural law, the ultimate beneficent effects of free market forces—all melded together to lend strong ideological support to private property, rugged individualism, *laissez faire*, and thus evolved into a justification and defense of the status quo in the distribution of income and property rights (Deane, pp. 98–100). As Marc Tool has observed, even Paretian optimality is not ethically neutral as presumed. Its intended application tends to perpetuate the status quo. What is, becomes a criterion of what ought to be" ("Social Value Theory of Orthodoxy: A Review and Critique" p. 320)

Thus, Neoclassical price theory in an attempt to dislodge Marx's extension of classical economics and become *value free*, became instead, *value-defensive*.

Onto this limited concept of economic planning or policy formation was grafted the so-called Keynesian revolution. The more flexible and open-minded of the standard neoclassical economists were now freed from some of the proscriptions regarding economic interference and were thereby permitted to devise policies aimed at interfering with the market mechanism—

but only at the macro level. That is, economic policy was confined to adjusting government fiscal and monetary operations in an attempt to alter effective demand, hoping thus to manipulate the overall levels of income, output, employment, and prices. (A rather grandiose failure in recent years, I would personally observe. But never mind, rarely in the history of our discipline has failure, in a practical or applied sense, made much of an impact on the beliefs of the faithful.) But within the narrow confines of fiscal and monetary manipulation, the mainstream remained more or less good neoclassical economists committed to leaving the market alone.

There remains the Marxist alternative. While it has had many variations and adaptations since the mid-nineteenth century, the essential ingredients remain substantially the same. In one way or another, the capitalist system has exploited the individual laborer and alienated labor from the fruits of its efforts. And while it may be peaceful or violent, nothing short of a revolution will solve the enduring malfunction of capitalism. Utopia is always just around the corner, just over the next barricade. But as alluring and promising as it always seems to be, there is never a very clear map of how to get there. Only a bright kaleidoscope of what is hopefully there.

There remains only one broadly based, clearly defined approach to problems of social policy, justice or welfare, to socio-economic-political reform. And that is the institutionalist school of economics.

There are many distinguishing features of this way of thinking and in the few minutes at my disposal, I shall identify what I consider to be the most important—as they relate to economic planning and reform, to the formation of economic policy.

What, then, is institutional economics? It is first, a shift away from the search for universal, everlasting laws governing a fixed and ordered universe. It is, as Dave Hamilton has so well documented, a shift from the universe of Newton which is fixed, stable and predictable, to an ever-changing mélange of Darwin, Einstein and Dewey. (*Newtonian Classicism* …)Here there are no universal laws governing man and society applicable at all times and all places. There are, rather, specific problems or malfunctions in a changing and complex world where, as Myrdal has emphasized, each generation acquires a new and frustrating assortment of socio-economic-political malfunctions. (*Objectivity in Social Research*, *Against the Stream*.)

It was in this experimental context that Rex Tugwell defined economic theory as "sustained thought of some difficulty of practice." It is, he said, "the attempt of trained intelligences to come to grips with the problems that are crucial for modern life." In other words, as we try to deal effectively with current malfunctions, as we try to find answers to current problems, then theory is what results. It was from exactly this same pragmatic platform that Commons defined ideas as being "springboards for action," and assumptions as "guides to action," and science itself "not as a body of knowledge, but as a process of attaining control." Gunnar Myrdal has emphasized this same point when he insisted that "facts do not organize themselves into systematic knowledge, except from a point of view, that point of view amounts to a theory—theory being understood in the only meaning it can have: a logically consistent system of questions to the social reality we are studying." (*Against the Stream*, p. 134.)

The institutionalists thus accept socioeconomic change and flux as the very subject matter of their inquiry—insisting further, that this change is not random, not haphazard, not blind stumbling, not merely the unwinding of natural law, but in some degree subject to orderly control and direction. In other words, as social man became aware of this socio-evolutionary process, he became aware of the fact that it was not merely blind stumbling; that this process of cumulative change was subject to guidance and direction by man himself. He alone among all creatures had some control over his own destiny. The future was, in part, of his own making. And incidentally, this is exactly why an institutionalist such as Myrdal insists that ours is ultimately a moral science: because the values of the scientist must be explicitly recognized and integrated into any form of social-economic-political inquiry (Myrdal, *Objectivity in Social Research*, p. 4). I shall return to this point in closing.

What, then, is economic planning according to the institutionalists? Actually, there is really fairly wide agreement on this point. As Mitchell once commented, "in the life of the nation, planning plays the role that thinking plays in individual life. Both processes are resorted to typically to find ways of surmounting difficulties that occur in the course of routine behavior." (*Intelligence….*, p. 129).

And in Tugwell's words, economic theory and analysis cannot escape "their responsibility for policy. Economics is still social economics. The test of its significance lies in the field of social action" (*Human Nature*, 477). It is "through gradual and experimental change" that we replace "social drift" in order to "mold our social and economic environment so as to reap the largest possible rewards" (*Our Econ. Society*, 541).

In strikingly similar fashion, Ayres pointed out that when we finally realized that institutional change is susceptible to intelligent control, then "social drift and automatism" were replaced by "organized human intelligence." (*The Role of Tech.*, 285)That is, as society grew and developed, creative intelligence played a vital role and "will do so increasingly, as knowledge and understanding grow. Economic planning is no more and nothing less than the working of this universal law, for planning is a function of knowing, in economics no less than in all other affairs." In sum, while "dogmas have a way of becoming obsolete, . . . planning goes on forever" (*Indus. Econ*" 186–202 *passim*).

The institutionalist obviously conceives of economic planning in a very broad and inclusive fashion. It includes the idea of control, of regulation, of direction; it includes also, the idea of conscious reform of the economic system, and it also includes the setting of goals and finding ways to attain them. Essentially, the basic issue that separates the institutionalist school from the mainstream is the issue of human direction versus automatism. It was from this point of view that Wesley Mitchell in the mid-1930's proposed that we "organize ourselves for deliberate and systematic study of social problems." The central aim, Mitchell argues, is "not at finding a 'solution,' but finding methods by which communities can carry on intelligently the process of working out the endless series of detailed solutions with which they must keep experimenting."(*Intelligence…*,p, 130–131) And only this last year, Adolph Lowe in accepting the annual Veblen-Commons award from the Association for Evolutionary Economics, emphasized this same point when he noted that

> Even if the specter of *laissez faire* still haunts some lecture halls, we live in an era in which the many ill-fated effects of the free play of economic forces are no longer accepted as acts of god, and in which the processes of the market are progressively subjected to public control, with this shift in public attitude, the role of economics has undergone an equally drastic change, from a medium of passive contemplation, it is being converted into a tool of active interference."(*What is Evol…*, p.249)

This is precisely the kind of economic planning that Marc Tool has recently described as a continuous and ongoing, "trial and error process" in which "inquiry is induced…analysis is offered… causal explanation is provided… predictions appraised…choices made…shifts recommended…trial runs started…consequences observed and assessed." In other words, for the institutional economist, such as Tool, the question to be answered, "is not shall there be planning, or won't planning destroy freedoms." Instead, "we pose questions of the following kind: 'who is doing the planning? For what purposes is planning being undertaken? Are such purposes compatible with the public interest?'" etc. (*Discretionary Economy*, p, 149)

In other words, planning and policy formulation are what institutional economics is all about.

And planning for what? Well, for a wide variety of openly normative readjustments of the market-dominated society. Many such normative statements could be elicited, but I think representative would be one of Dan Fusfeld's:

> A humane economy requires more than prosperity and economic growth, more than (just the) efficient allocation of resources. It demands changes in the framework of economic institutions to achieve greater equality and freedom, . . .The dispersal of economic power and governmental authority that support the present disposition of income, wealth, and power, … A social environment that brings a sense of community and fellowship into human relationships…compatibility among man, his technology, and the natural environment … These are the goals of the

> future, to which economists and everyone else will have to devote their energies. (*Post-Post-Keynes: The Shattered Synthesis*, quoted in Tool, p. 315).

The institutional economist thus purposefully and openly adopts an instrumentalist-normative point of view toward the socio-economic-political process. It is his responsibility, *as an economist,* to assist in that evolutionary growth and development, in the enlargement of socially defined opportunities, but this enlargement can be realized only through collective action, only through the continuous modification of institutions, the habits of thought, the customs, the system of rights and privileges and responsibilities that guide our everyday actions.

The institutional economist is thus committed to this instrumental, active, participating role of critic and reformer.

As Walton Hamilton said many years ago, "the task of keeping industry the instrument of society, is as arduous as it is ever-lasting."

Thus, what ostensibly began as an attempt to formulate a value-free inquiry by the Austrians, became instead, value-defensive. Now, at the hands of the institutionalists, it becomes openly value-committed. It comes full circle to where it began in 1776— an openly normative, moral science.

And this is why the institutionalists rejected mainstream micro and macro economics. It is not that they were wrong in any absolute sense, but that neither provided any meaningful guidance for clearing up the socio-economic problems that plague us today, neither provided any significant assistance toward eliminating the more serious defects of the modern social economy.

If we adopt that institutionalist position, we then assume a moral obligation to help define a better life and then help society achieve it, to grow to its fullest moral stature. While society should not leap into an unknown void, neither must it remain forever earthbound. (Kaplan, p. 93)

It is simply our responsibility to show the way, to help society see that there are newer and brighter stars to aim for.

References

Clarence E. Ayres, *The Industrial Economy: Its Technological Basis and Institutional Destiny* (Boston: Houghton Mifflin Co. 1952).

———, "The Role of Technology in Economic Theory," *American Economic Review*, May, 1953.

Commons, John R. *Institutional Economics* (Madison: University Of Wisconsin Press).

Phyllis Deane, *The Evolution of Economic Ideas* (New York: Cambridge University Press, 1978).

Dewey, John R. *Intelligence in the Modern World*, Joseph Ratner, Editor (New York: The Modern Library, 1939).

———, *Reconstruction in Philosophy* (New York: The New American Library, 1949).

David Hamilton, *Newtonian Classicism and Darwinian Institutionalism*, Albuquerque: The University of New Mexico Press, 1953, 1976.

Hamilton, Walton, and Irene Till, "Anti-Trust—The Reach After New Weapons," *Washington University Law Quarterly*, #1, 1940, p. 26.

Robert Heilbroner, "Introduction of Adolph Lowe Veblen-Commons Award," *Journal of Economic Issues,* June, 1980.

Kaplan, Abraham. *American Ethics and Public Policy*, 1963.

Adolph Lowe, "What Is Evolutionary Economics," *Journal of Economic Issues*, June 1980.

Wesley Mitchell, "Intelligence and the Guidance of Economic Planning," Reprinted in *The Backward Art of Spending Money* (New York: Augustus M. Kelley, 1950).

Gunnar Myrdal, *Against the Stream*, (New York: Pantheon Books, 1973).

——— , *Objectivity in Social Research* (New York: Random House, 1969).

Marc R. Tool, *The Discretionary Economy: A Normative Theory of Political Economy*, Santa Monica, California: Goodyear Publishing Company, 1979).

———, "The Social Value Theory of Orthodoxy: A Review And Critique," *Journal of Economic Issues,* June 1980.

Rexford G. Tugwell, *Our Economic Society and Its Problems*. (New York: Harcourt Brace & Co., 1935).

———, "Human Nature in Economic Theory," *Journal of Political Economy*, June 1922.

THE INSTRUMENTALIST FOUNDATION FOR INSTITUTIONALIST ECONOMIC THOUGHT AND HUMAN DIRECTION VERSUS AUTOMATISM

Paper presented at the Third World Congress of Social Economics, Fresno, California, August 19, 1983.

COMMENTARY BY SUSAN DADRES

In this paper, Cochran identifies the distinctive contributions of institutional economics as becoming an active participant in planning and reform. He offers the observation, following Dewey, that economic theory is not "… a series of abstract generalizations about assumed market conditions." Rather, it is the extension of the analysis of plans to be carried out and reforms to be implemented. The goal is to explore, investigate, and experiment.

Cochran notes that the goal of neoclassical analysis is to make the market mechanism more efficient, which is a kind of economic planning, but with limited scope. He also notes that Austrian analysis is even more limited. Whereas neoclassical thinkers might, for example, advocate a government policy designed to make markets more competitive, Austrian thinkers insist that *laissez-faire* is always the answer. Presumably, consumers can prevent market power by refusing to purchase goods from a monopolist. Never mind that consumers by definition have no real options when monopoly power exists. Cochran refers to a wonderful analogy attributed to Adolph Lowe, relating *laissez-faire* economists to astronomers who may observe and predict, but who never actually affect the course of events.

Focusing on the aspects of institutionalist thinking that set it apart from other schools of thought, Cochran first notes that it represents a shift away from the Ricardian search for universal laws because institutionalists accept that they are in fact trying to understand change. Institutional economists play an instrumental role in finding solutions to continuously new problems, coming full circle to where economics began in 1776, "an openly normative, moral science."

THE INSTRUMENTALIST FOUNDATION FOR INSTITUTIONALIST ECONOMIC THOUGHT AND HUMAN DIRECTION VERSUS AUTOMATISM

The central theme of this paper is to develop the unique and distinctive contribution of the institutional economist: to purposefully and explicitly seek the role of active *participant* in current socioeconomic planning and reform. Institutional economics is thus conspicuously and consciously normative and value-committed. In fact, that is its identifying badge.[1]

There is of course a growing concern for some form of intervention among many western economists, including most Keynesians—particularly the post-Keynesians. They would all concur with Walter Adams' observation that “Keynes believed that the object of studying economics is to help make a better world and ... to influence public policy toward that end.”[2] But that "influence" is in fact fairly limited. The institutionalists seek a much more active role as participant in society's value commitment. This avowedly normative position is of course the direct heritage of the instrumentalism of John Dewey who stressed the use of social intelligence as a conscious and continuous adjustment of means to evolving and changing ends. The problems and subject matter of this form of inquiry, said Dewey, "Grow out of the stresses and strains in the life of the community. As new problems and maladjustments merge, they required the continuous readjustment of an active and socially involve intelligence.”[3]

In Dewey's words,

> [This] pragmatic theory of intelligence means that the function of the mind is to project new and/or complex ends—to free experience from routine and from caprice. [It] is not the use of thought to accomplish purposes already

> given in the existent state of society, but . . . to liberate and liberalize action.[4]

John R. Commons, one of the better known of the institutionalists, emphasized this same instrumentalist position when he said:

> The method of the historical science, and therefore of economic science, is the process of analysis, genesis, and insight ... A process of attaining control over the forces of nature by better knowledge of the ways in which these forces operate. As Dewey has said, "Ideas are statements not of what is or has been—but of acts to be performed."[5]

The key to Dewey's instrumentalism was, in his words, the change from "contemplative to operative." It was to conceive of knowledge, not as a fund, but as an "active and operative" process, seeking the "active control of nature and experience."[6]

Thus for the institutionalists, borrowing from Dewey, economic theory was not a series of abstract generalizations about assumed market conditions, but the extension of logical analysis to programs for action, plans to be carried out, reforms to be implemented, finding alternative experimental solutions to emerging and changing socio-economic problems. Based upon this epistemology, economic theory and analysis became exploratory, investigative, experimental.

The institutionalists adopted this instrumentalist position as their *a priori* point of departure. It was their set of given assumptions. As Gruchy has pointed out, they sought "to interpret the real economic world [with a] corpus of economic theory that adjusted to the evolving advanced industrial economy."[7] And it is from this instrumentalist position that Institutional Economics can be understood only as a basis for policy making, economic planning, social and economic reform—call it what you will. (And incidentally. this is probably why Institutional Economics was never well received within the mainstream of the development of economic thought. It was simply not in tune with the times which were overwhelmingly committed to *laissez faire.*) But not only is Institutional Economics to be understood *only* as a basis for economic planning, it is equally true that any form of broad socio-economic-political reform would find its ideological home only in an institutionalist atmosphere. And that is why the standard mainstream economics could never really comprehend what institutionalism was all about—committed as he or she was to an *a priori* position that denied the possibility of any socio-economic planning.

Thus standard neoclassical analysis led essentially to one kind of economic policy—to make the market mechanism more efficient, that is, more competitive. This of course is a kind of economic planning or policy formulation, but of a very limited scope.

The Austrian School, on the other hand, was—and indeed still is—even more limited in its policy applications, since it insists that *laissez faire* is the answer to all economic problems. As a matter of fact, any economic problem that seems to exist is in fact only a consequence of having violated that *laissez faire* dictum. If we would only leave well enough alone, then the eternal laws of nature would produce the best of all possible equilibria. As Adolph Lowe has suggested, "In that vanished world of *laissez faire*, the economist differed little from the astronomer. He was a passive observer, and his predictions, correct or incorrect, did not affect the course of events any more than did the incantations of a Shaman."[8] All that remained for a mere man was to do absolutely nothing. The best of all possible worlds could be ours, and we do not have to do anything. Presumably we do not even have to pray for it, since it is inexorably going to be.

(As an aside, I have often wondered whether or not most Austrians carry their economic assumptions to the logical conclusion of also being Unitarians. Perhaps a viable research project is hidden there.)

Rooted in individualism and the natural right philosophy of Bentham and Smith, mainstream economic analysis thus became little more than a formal extension of the *a priori* conclusion that the welfare of society is no more than the sum of individuals, each pursuing their individual selfish ends, checked only by the selfish actions of other individuals doing the same thing. In other words, the competitive market becomes the ultimate register of social value, and therefore, the only means available to maximize the welfare of society.

According to most institutionalist criticisms, however, this neoclassical position had far graver consequences than merely doing nothing. Specifically, the key normative concepts—rationality, optimality, efficiency, natural law, the ultimate beneficent effects of free market forces—all melded together to lend strong ideological support to private property, rugged individualism, and *laissez faire*; and thus evolved into a justification and defense of the status quo in the distribution of income and property rights.[9] As Marc Tool has observed, even Paretian Optimality "is not ethically neutral as presumed. Its intended application tends to perpetuate the status quo. What is, becomes a criterion of what ought to be."[10]

Thus, neoclassical theory, in an attempt to dislodge Marx's extension of classical economics to become *value free*, instead became *value-defensive*.

Onto this limited concept of economic intervention—as a defense of the allegedly competitive status quo—was grafted the so-called Keynesian Revolution. The more flexible and open-minded of the standard neoclassical economists were now freed from some of the proscriptions regarding economic interference and were thereby permitted to devise policies aimed at interfering with the market mechanism—but only at the Macro level, and only to improve the basic mechanism, not to change or supplant it. That is, economic policy was confined to adjusting government fiscal and monetary operations in an attempt to alter effective demand, hoping thus to manipulate the overall levels of income, output, employment, and prices. (A rather grandiose failure in recent years, one might observe. But never mind—rarely in the history of our discipline has failure, in any practical or applied sense, made much of an impact on the beliefs of the faithful.) But within the narrow confines of fiscal and monetary manipulation, the mainstream remained more or less good neoclassical economists committed essentially to leaving the market alone.

There remains the Marxist alternative. While it has had many variations and adaptations since the mid-nineteenth century, the essential ingredients remain substantially the same. In one way or another, the capitalist system has exploited the individual laborer and alienated labor from the fruits of its efforts. And while it may be peaceful or violent, nothing short of a revolution will solve this enduring malfunction of capitalism. Utopia is always just around the corner, or just over the next barricade. But as alluring and promising as it always seems to be, there is never a very clear map of how to get there. Only a bright kaleidoscope of what is hopefully there.[11]

There remains only one broadly based, clearly defined approach to problems of social policy, justice, or welfare, to socio-economic-political reform. And that is the institutionalist school of economics.

There are many distinguishing features of this way of thinking. It is, first, a shift away from the Ricardian (or Marxian) search for universal laws governing a fixed and ordered universe. It is, as Dave Hamilton has so well documented, a shift from the universe of Newton which was fixed, stable and predictable, to an ever changing mélange of Darwin, Einstein and Dewey.[12] Here there are no universal laws governing man and society applicable at all times and all places. There are, rather, specific problems or malfunctions emerging in a changing and complex world where, as Myrdal has emphasized, each generation acquires a new and frustrating assortment of socio-economic-political malfunctions.[13]

It was in this experimental context that Rex Tugwell defined economic theory as "sustained thought of some difficulty of practice." It is, he said, "The attempt of trained intelligences to come to grips with the problems that are crucial for modern life."[14] In other words, as we try to deal effectively with current malfunctions, as we try to find answers to current problems, then theory is what results. It was thus that Commons defined ideas as being "springboards for action," and assumptions as "guides to action," and science itself "not as a body knowledge, but as a process of attaining control."[15] Gunnar Myrdal has likewise insisted that "facts do not organize themselves into systematic knowledge, except from a point of view. That point of view amounts to a theory—theory being understood in the only meaning it can have: ‘a logically consistent system of questions to the social reality we are studying.’ ”[16]

The institutionalists thus accept socio-economic change and flux as the very subject matter of their inquiry—insisting further, that this change need not be random, not haphazard, not blind stumbling, nor merely the unwinding of natural law, but in some degree subject to human control and direction. The future is, in part, of our own making. And this is why an institutionalist such as Myrdal insists that ours is ultimately a moral science: because the values of the economist must be explicitly recognized and integrated into any form of inquiry.[17]

What, then, is economic planning according to the institutionalists? Actually, there is really fairly wide agreement on this point. As Mitchell once commented, "In the life of the nation, planning plays the role that thinking plays in individual life. Both processes are resorted to typically to find ways of surmounting difficulties that occur in the course of routine behavior."[18]

And in Tugwell's words, economic theory and analysis cannot escape "their responsibility for policy. Economics is still social economics. The test of its significance lies in the field of social action."[19] It is "through gradual and experimental change" that we replace "social drift" in order to "mold our social and economic environment so as to reap the largest possible rewards."[20]

In strikingly similar fashion, Ayres pointed out that when we realized that institutional change is susceptible to intelligent control, then "social drift and automatism" were replaced by "organized human intelligence."[21] And Ayres added, "economic planning is no more and nothing less than the working of this universal law, for planning is a function of knowing, in economics no less than in all other affairs." In sum, while "Dogmas have a way of becoming obsolete, … planning goes on forever."[22]

Essentially, the basic issue that separates the institutionalist school from the mainstream is this issue of human direction versus automatism. Thus Wesley Mitchell, in the mid-1930's, proposed that we "organize ourselves for deliberate and systematic study of social problems." The central aim, Mitchell argued, is "not finding a 'solution,'" but finding methods by which communities can carryon intelligently the process of working out the endless series of detailed solutions with which they must keep experimenting."[23]

Adolph Lowe, in accepting the annual Veblen-Commons Award from the Association for Evolutionary Economics, more recently emphasized this same point when he noted that:

> Even if the specter of *laissez faire* still haunts some lecture halls, we live in an era in which the many ill-fated effects of the free play of economic forces are no longer accepted as Acts of God, and in which the processes of the market are progressively subjected to public control. With this shift in public attitude, the role of economics has undergone an equally drastic change. From a medium of passive contemplation, it is being converted into a tool of active interference.[24]

This is precisely the kind of economic planning that Marc Tool has described as a continuous and ongoing, "trial and error process" in which "inquiry is induced, analysis is offered .. , causal explanation is provided ... predictions appraised choices made .. . , shifts recommended ... trial runs started ... consequences observed and assessed." In other words, for the institutional economist, such as Tool, the questions to be answered are, “not shall there be planning, or won’t planning destroy freedoms?” Instead, says Tool, "we pose questions of the following kind: ‘Who is doing the planning? For what purposes is planning being undertaken? Are such purposes compatible with the public interest?’”[25]

And planning for what? For a wide variety of openly normative readjustments of the market-dominated society. Many such normative statements could be elicited, but I think representative would be one of Dan Fusfelds's:

> A humane economy requires more than prosperity and economic growth, more than [just the] efficient allocation of resources. It demands changes in the framework of economic institutions to achieve greater equality and freedom, ... the dispersal of economic power and governmental authority that support the present disposition of income, wealth, and power ... a social environment that brings a sense of community and fellowship into human relationships .. . compatibility among man, his technology, and the natural environment … these are the goals of the future, to which economists and everyone else will have to devote their energies.[26]

The institutional economist thus purposefully and openly adopts an instrumentalist-normative point of view toward the socio-economic-political process. It is his responsibility, as an economist, to assist in that evolutionary growth and development, through the enlargement of socially defined opportunities. But this enlargement can be realized only through democratic collective action, only through the continuous modification of institutions, the habits of thought, the customs, the system of rights and privileges and responsibilities that guide our everyday actions.

The institutional economist is thus committed to this instrumental, active, participating role of critic and reformer.

And this is why the institutionalists rejected mainstream micro and macro economics. It is not that they were wrong in any absolute sense, but that neither provided any meaningful guidance for clearing up the socio-economic problems that plague us today. Neither provided any significant assistance toward eliminating the more serious defects of the modern social economy.

The institutionalist thus assumes a moral obligation to help define a better life and then help society achieve it, to grow to its fullest moral stature. It is simply his responsibility to show the way, to help society see that there are newer and brighter stars to aim for in the never-ending struggle to improve our lot.

As Walton Hamilton said many years ago, "the task of keeping industry the instrument of society, is as arduous as it is everlasting."[27]

Thus what began as an attempt to formulate a value-free inquiry by the Austrians, became instead, value-defensive. Now, at the hands of the institutionalists, it becomes value-committed. It thus comes full circle to where it began in 1776—an openly normative, moral science.

References

1 Myrdal, Gunnar, "Institutional Economics," *Journal of Economic Issues*, December, 1978, p. 1. See also Marc R. Tool, *The Discretionary Economy: A Normative Theory of Political Economy*, (Santa Monica, California, Goodyear Publishing Company, 1979), especially chapter 16.

2 Adams, Walter, "Economic Theory and Policy," *Review of Social Economy*, April, 1982, p .l.
3 Dewey, John, *Reconstruction in Philosophy* (New York: The New American Library, 1949), p.v.
4 Dewey, John R., *The Philosophy of John Dewey*, Joseph Ratner, Ed. (New York: Henry Holt & Co., 1928), p.219.
5 Commons, John R., *Institutional Economics* (Madison: University of Wisconsin Press, 1934), p.747.
6 Dewey, *Reconstruction ...* , pp. 122–123, *The Philosophy of*, pp.219–220.
7 Gruchy, Alan, "Planning in Institutional Thought," *Journal of Economic Issues*, June 1982, p. 374.
8 Lowe, Adolph, "What is Evolutionary Economics*," Journal of Economic Issues*, June, 1980, p. 241.
9 Deane, Phyllis, *The Evolution of Economic Ideas* (New York: Cambridge University Press, 1978), pp. 98–100.
10 Tool, Marc R., "The Social Value Theory of Orthodoxy: A Review and Critique," *Journal of Economic Issues*, June 1980, p. 320.
11 For a much more thoughtful comparison of Institutionalism to Marxism, see Marc R. Tool, "Social Value Theory of Marxists: an Instrumentalist Review and Critique," *Journal of Economic Issues*, December 1982 and March 1983.
12 Hamilton, David, *Newtonian Classicism and Darwinian Institutionalism* (Albuquerque: The University of New Mexico Press, 1953.1976).
13 Myrdal, Gunnar, *Against the Stream*, (New York: Pantheon Books, Objectivity in Social Research, (New York: Random House, 1969).
14 Tugwell, Rexford G., "Economic Theory and Practice," *American Economic Review*, March 1923, pp. 108-09.
15 Commons, John R., *The Economics of Collective Action* (New York: The Macmillan Co., 1951), pp. 73, 124–25. See also his *Institutional Economics*, pp. 722, 734.
16 Myrdal, *Against the Stream*, p. 134.
17 Myrdal, *Objectivity...* , p. 4.
18 Mitchell, Wesley. "Intelligence and Guidance of Economic Planning," reprinted in *The Backward Art of Spending Money* (New York: Augustus M. Kelley, 1950), p.129.

19 Tugwell, "Human Nature in Economic Theory," *Journal of Political Economy*, June, 1922, p.477.
20 Tugwell, Rexford G., *Our Economic Society and Its Problems* (New York: Harcourt Brace and Co., 1935), p.541.
21 Ayres, Clarence, "The Role of Technology in Economic Theory," *American Economic Review*, May 1953, p.285.
22 Ayres, Clarence, *The Industrial Economy: Its Technological Basis and Institutional Destiny* (Boston: Houghton Mifflin Co., 1952), pp. 186–202 *passim*.
23 Mitchell, op cit., pp. 130–131.
24 Lowe, Adolph, "What is Evolutionary Economics," *Journal of Economic Issues*, June, 1980, p. 249.
25 Tool, *The Discretionary Economy*, p. 149
26 Fusfeld, Daniel, "Post-Post-Keynes: The Shattered Synthesis,"(972) quoted in ibid., p.315.
27 Hamilton, Walton, and Irene Till, “Anti-Trust—The Reach After New Weapons,” *Washington University Law Quarterly*, #1, 1940, p. 26.

PART 4

THE IMPORTANCE OF ECONOMIC EDUCATION

Kendall Cochran was a great economist, thinker, and writer; but perhaps his greatest contributions came about in the university classroom as a teacher and as an innovator of ways to incorporate into the university curriculum an economic education program for high school teachers of economics. Initially funded by grants from the National Science Foundation, Cochran initiated the University of North Texas' Economic Education Program for future high school teachers as mandated by the National Council on Economic Education. It was the first one to be included in the curriculum offerings in a *bona fide* Department of Economics rather than as at most universities in the College of Education. He also established the University of North Texas Center for Economic Education for current high school teachers to become more qualified to teach high school economics.

This section provides a glimpse of some of his contributions as an educator concerned with financial literacy and ethical decision-making for the individual as well as the professional economist and/or economic educator.

Every Man His Own Economist

Business Studies, North Texas State University
(Spring 1964), pp. 59–61.

COMMENTARY BY SUSAN DADRES

In this article, Cochran makes an eloquent case for greater economic literacy and the need to reach a broader audience by providing a program of economic education in the high school curriculum. He outlines the problems of the day which require a certain amount of economic literacy and how everyone needs to engage in economic analysis to participate in democratic affairs and make increasingly important economic decisions.

Today, nearly half of American states make completion of economics a requirement for high school graduation. The effort to improve the education of economics is an ongoing task, and the article written nearly 50 years ago demonstrates that this effort is not a new one. Cochran quotes the Committee for Economic Development (CED) which, in 1949, established the Joint Council on Economic Education. The CED asserted that "economic literacy is vital to the survival of the American society" and evinced their concerns that the need for a course of economic education was both significant and growing.

Cochran notes that "the kind of economic understanding envisioned by the CED does not require a Ph.D. in economics," but it is also not something most people can master easily or quickly. In 1960, the CED partnered with the American Economics Association to identify and publish 21 basic economic concepts a high school student should understand. This article provides interesting historical details that help us understand why and when the movement for greater economic literacy began. Today, the arguments favoring economic literacy remain relevant. When

Cochran wrote the article, only 5 percent of high school students had taken an economics course. While that number is substantially higher today, it is still less than half, so there is a continued need to address this issue.

EVERY MAN HIS OWN ECONOMIST

Inflation, recession, economic growth, GNP, and National Income are the commonplace jargon of our daily newspaper.

Taxes and tariffs; government spending and the national debt; social security and unemployment compensation; regulation of banks, the stock exchange, and public utilities; the role of labor unions and farm price supports: these are basic facts of economic life today. And as basic facts, they also involve matters of public policy that affect each of us. They are, in short, issues of public concern and public responsibility.

Although the public is ultimately responsible for the choices made among these issues, it is becoming evident that large segments of the American public do not have the economic knowledge sufficient to analyze and evaluate these matters of public concern. Slogans, myths, fears, superstitions, and clichés dominate the public's understanding of economics.[1] It is a simple question of economic illiteracy.

This conclusion should not be surprising. Few of us pretend to know how an atom bomb works. Few of us really know why airplanes fly. But it matters very little in either case. These are areas of knowledge that do not affect us directly. We can afford to be illiterates in such areas. But we cannot afford to be economic illiterates. Or, as the Research and Policy Committee for the Committee for Economic Development (CED) asserted in a recent policy statement: "Economic literacy is vital to the survival of the American society." In this policy statement, the Committee argued for the urgent necessity of promoting at every possible level a higher degree of "economic literacy." In their words,

---

[1]John R. Coleman, Chairman of Economics Department at Carnegie Institute of Technology, in an address sponsored by the Kansas Council on Economic Education, Wichita, Kansas, April, 1964.

> We believe the need for economic knowledge is growing rapidly. We fear that this need is not widely enough recognized, nor its implication adequately understood.
>
> The complexity of our economic affairs grows with our institutions. Businesses are bigger, so are labor unions, so are our local state and Federal governments. All of these institutions require economic decision making and in a democracy all of us, to a large extent, must be our own economists.[2]

Our local, state, and national governments, our businesses, labor unions and farm organizations are faced with increasingly complex economic issues. The solution to such problems is neither quick nor easy; but solutions will be sought; answers must be found. The question, then, is not whether economic decisions will be made; it is simply how well formulated they will be. In short, all of us must be our own economists! If one is to participate in this going concern we call the American system, even to the extent of voting for public officials, then to that small extent he must in small measure bean economist. At issue is the question—how good an economist will he be? How sound will his judgment be? If such judgment is to be based primarily on folklore, myths and superstitions, the future of our way of life may indeed be at stake.

How, then, is even a small beginning to be made to eradicate economic illiteracy? The kind of economic understanding envisioned by the CED does not require a Ph.D. in economics. Unfortunately, neither can it be absorbed *In One Easy Lesson.* Economics is a science; it is a method of reasoning and analysis not unlike physics or mathematics. Traditionally, economics has been taught almost exclusively at the college level. But if the objectives of the CED are to be realized, if the large majority of the public is to have a basic understanding of economic analysis, then the curriculum of the high schools will have to be revised.

---

[2]*Economic Literacy for Americans,* a Statement on National Policy by the Research and Policy Committee of the Committee for Economic Development, New York, February, 1962, p. 8.

A beginning has been made. In 1949, the CED initiated the establishment of the Joint Council on Economic Education. And since that day, the Joint Council has led the way, working with business, labor and civic groups, to introduce economics into the high school curriculum.

In 1960, the CED also joined with the American Economic Association in appointing and financing the National Task Force on Economic Education. The Task Force published its *Report* in 1961, which outlined 21 basic economic concepts that a high school student should understand.[3]

The CED also joined with the Joint Council on Economic Education in establishing a Materials Evaluation Committee.[4] The task of this Committee of distinguished economists and educators was simple: to read and evaluate some 7,000 different items, ranging from single page leaflets to volumes of formidable size. Their objective was to supply high school teachers "with a carefully selected and annotated list of materials available [and suitable]for high school use.[5]

Thus a beginning has indeed been made. But it is only a token, tentative beginning. In 1962, Abraham A. Ribicoff, then the Secretary of the Department of Health, Education and Welfare, pointed out that less than five percent of all high school students actually take as much as a single course in economics. And all too often this so-called course in economics is devoted largely to personal finance, savings, life insurance, and bookkeeping. This, as Secretary Ribicoff commented, is "somewhat comparable to letting the teaching of short division satisfy the requirements for mathematics."[6]

The economics that is taught is largely in connection with the other social sciences—particularly, courses in government and

---

[3]*The Report of the National Task Force on Economic Education,* Committee for Economic Development, New York, 1961.
[4]Study Materials for Economic Education in the Schools, Report of the Materials Evaluation Committee, Committee for Economic Development, New York, October, 1961.
[5]Ibid., p. 4.
[6]Abraham A. Ribicoff, "We Can't Afford Economic Illiteracy," *Petroleum Today*, Spring, 1962, p. 8.

history. But the picture here is not much brighter. William A. Perry recently analyzed the texts now in use in Texas high schools in government and history.[7] Using as a criteria the twenty-one topics the Task Force listed as minimal, he found that these texts completely ignored 60 per cent of these topics. None of the other topics was covered adequately.

And the high school teachers themselves are poorly trained in economic analysis. Thirty high school teachers of economics with whom this writer has had contact were surveyed. Each of these teachers was responsible for at least one formal course in economics. This group of teachers taught economics to a total of 3,366 high school students, or an average of about 112 students per teacher. Yet the teachers themselves had had, on the average, less than five semester hours of course work in economics in college. Four teachers in this group had no formal work in economics but were responsible for 410 students in economics classes!

The answer for the future clearly lies in the inclusion of more economics in the college curriculum, particularly for those teachers who plan to teach any of the social sciences. But what of the present? If any progress toward the elimination of economic illiteracy is to be made, the beginning must be with the high school teacher. Hopefully, one small, experimental move has been made.

Recognizing the desperate need to promote both basic research and education in the sciences, the National Science Foundation was established by Congress in 1950. Until quite recently such objectives have been confined to the areas of the natural sciences such as chemistry, biology, geology, physics, and mathematics. But the National Science Foundation has now expanded its support for better education in the high schools to include the social sciences. Specifically, it has agreed to extend financial support for two summer institutes for high school teachers of economics. The two universities selected to carry out this program are North Texas State University and The University of Illinois. These two Institutes for high school teachers of economics are among 440 Institutes being sponsored by the N.S.F., the others being in the natural and physical sciences.

---

[7]William A. Perry, Economic Education in North Texas, unpublished M.A. thesis, North Texas State University library, 1963.

Operating under a grant of $29,594 from the National Science Foundation, the program at North Texas State University is designed for the high school teacher of economics who has had little or no formal training in economics. Thirty teachers were selected from among more than 300 applicants. They represent 16 different states, including New York, California, Minnesota, and Florida. Applications were received from 44 different states plus the Panama Canal Zone and the Virgin Islands. The teachers will receive $75 per week for the six weeks that the Institute is in session. In addition, each will receive $15 per week per dependent, with a limit of four, and a travel allowance of four cents per mile for one round trip from their home to N.T.S.U., with a limit of $80. All fees and tuition will be paid by the N.S.F.

While at N.T.S.U., these high school teachers will be enrolled in two courses in economics. One course, concerned primarily with money, national income, economic stability, and economic growth, will be taught by this writer. The other, to be taught by Dr. Jim E. Reese, Professor of Economics at The University of Oklahoma, will cover the price system, the market economy, and the allocation of resources. Concurrently, a high school course in economics will be taught in the University Lab School. This course will be under the direction of Mrs. Emma Joe Yarbrough, an experienced teacher of economics in the Denton High School. This class of high school seniors will be utilized by the Institute participants for the testing and evaluation of materials selected by the Materials Evaluation Committee. The Joint Council on Economic Education is cooperating by arranging for nationally known speakers and economists to come to N.T.S.U. to speak to the Institute participants. These will include representatives of labor unions, the business community, farm organizations, and the Federal Reserve System. Periodicals, books, pamphlets, film strips, and movies will also be utilized in an effort to make economics readily available to the high school classroom.

Thus a start has been made. But it is only a very small start and it is at this stage only experimental. If, however, we agree with Senator Ribicoff that "Economic illiteracy must be erased, not just to increase our goods and productivity but to ensure that our way of life can survive," then it is a hopeful beginning. We no longer can afford the "luxury of ignorance."[8]

[8]Ribicoff, *op, cit.,* p. 9.

Goals for Economic Education

The Atlanta Economic Review, vol. XV(5)
(May 1965), pp. 6–8.

COMMENTARY BY SUSAN DADRES

In this article, Cochran makes the case that an important goal is to reduce economic illiteracy and place less emphasis on abstract theory and graphs when designing a high school curriculum to prepare high school teachers. Today, many of the high school students who study economics are enrolled in Advanced Placement (AP) classes or dual credit classes, taught by a college instructor if not on a college campus. This has helped alleviate some of the demand for better-trained high school economics teachers, a problem Cochran addressed at the annual meeting of the Southern Economic Association in Atlanta, Georgia, Economic Education seminar, from which this article was adapted.

Cochran provides examples of economic illiteracy in action and humorously argues that we should at least expect economic literacy in the U.S. Senate. Cochran's expectations are not as ambitious as they seemed to be in his previous paper, "Every Man His Own Economist." He acknowledges that rational thinking is a long-term goal, but we might have to settle for less right away. Recounting his experiences studying biology and chemistry in college, he reaches the conclusion that students can be made "less dogmatic about previously-held convictions" through basic education, which would be a great accomplishment with respect to economic education.

GOALS FOR ECONOMIC EDUCATION

I can personally verify one of Dr. Guyton's major conclusions—there is a large and growing market for high school teachers of economics. North Texas State was given a grant by the National Science Foundation this last summer for an Institute for high school teachers of economics. I mention it here because of several experiences that are, I believe, relevant to this discussion. First, was there a demand for this product?

The announcement of the Institute was not made until January 9, and completed applications had to be postmarked by February 15. Because of the extreme limitations of time, and because we had no mailing list for high school economics teachers, we had to rely exclusively on indirect methods of publicity. The Joint Council for Economic Education, for example, circulated the announcement to some 150 curriculum directors, who in turn contacted teachers. And yet in those few weeks we received over 600 requests for information from 43 continental states plus Alaska, the Canal Zone, and the Virgin Islands. (No requests came from Delaware, Hawaii, Kentucky, New Hampshire, Rhode Island, and Vermont.) Dozens of school officials wrote and said they would add an economics course if one of their teachers were selected. I personally know of several school systems that are going to add an economics course this coming year. And they are now desperately trying to find a teacher.

Who, then, teaches these courses currently? Basically, and almost universally, anybody who does not have a full schedule and, particularly, if they took a course, any course, in the social sciences. Let me illustrate:

From among those teachers who actually submitted formal applications, I drew a random sample of 100. Of this group, 16 per cent had had twenty-four or more hours in economics when in college. The average was 31.9 hours. I do not know how much economics a high school teacher should have, but I am willing to assume this group is technically qualified to teach high school economics. But what of the others?

As a group, they averaged a little over seven hours in economics. Fifty-six per cent averaged 9.6 hours; the remaining 28 per cent averaged only 2.1 hours. There was little difference in the number of students in the classroom. Each of these two subgroups had approximately 70 students in economics classes.

So, the need is there, and it is growing. And high school teachers, principals, and superintendents want to do something about it. Where, then, do we as professional economists fit in?

CONCENTRATION ON TEACHING

One major problem was touched upon by Professor Gilliam [see footnote] when he said, "It is only natural for [college] teachers of economics, as they gain experience and maturity, to set their sights on more sophisticated endeavors." More sophisticated endeavors is, of course, defined by our professional colleagues in general, but more specifically by our departmental chairmen, deans, and vice presidents. In most cases, professional advancement is simply not going to be realized by concentrating on teaching an effective course in Principles of Economics. This is what Professor Gilliam meant. I would add, nor is such advancement currently going to be achieved, in most cases at least, by concentrating on extending economic education to the high school. The old saw still lies under the surface: those who can, do; those who can't, teach; and those who can teach, teach teachers.

We, as professional economists, would probably agree on the pressing need for better economic education in the high schools. But we do tend to shy away from active participation because this is simply not the way to win brownie points in the profession.

Hopefully, and optimistically, I believe this objection is much less so now than it was a few years ago. The massive efforts by the American Economic Association and by many of its past officers, and sessions in formal programs of economists attest to a growing professional concern. And to give it more status, we should again mention that the National Science Foundation is now willing to support such efforts with financial aid, and such aid is quite generous. The NSF grant to North Texas to conduct a six weeks program for thirty high school teachers was some $29,000.

AIM: NOT LITERACY BUT LESS ILLITERACY

If my assessment is correct, we will see an expanded multi-pronged effort to teach economics to the high school teacher through NSF sponsored programs, centers for economic education, and financial aid from state and regional conferences and the Joint Council. These will include pre-service training for the future teacher, summer workshops, institutes, in-service training programs, etc. But what are we who do get involved in such programs going to do? To follow up on Professor Gilliam's inquiry—how can we teach economics to teachers of economics?

I currently believe it is on this point that I would take issue with the general theme of Professor Gilliam's paper, for I believe our immediate aim cannot be the attainment of economic literacy—but must be the much more modest one of lessening economic illiteracy.

Any teaching act is a highly personal one; and the methods, techniques, and materials used will, of necessity, vary widely—dictated by the needs, limitations, and abilities of the teacher and, equally, by the needs, limitations, and abilities of the student. Let me elaborate on this point for a few moments, for I believe it is the student that has often been overlooked. And, in context, I wish to think specifically in terms of the needs, limitations, and abilities of the high school teacher as a student.

Now, if our attempt is to make this teacher into an economist, then we must, of necessity, help him to learn, to think logically, and analytically, to weigh evidence, to sift data—in short, to come to conclusions by his own intellectual efforts. If this be our aim in the college classroom, clearly we will have to emphasize the analytical approach. We must insist that the students think through from the assumptions, the evidence, and data to their conclusions.

I may be overly optimistic, but I do believe that most of my students do this fairly well—about the time they have completed their Master's Degree. But what if we don't have this much time?

And what if we still hope for economic literacy for those who never get to college?

I have personally come to the conclusion that we may have to settle for something less. I may change my mind in the future, for this business of economic education is relatively new to me, but it is only by the exchange of ideas and philosophies, even though they be unpopular, that progress will be made.

I must confess that my thinking along these lines has changed markedly in the last few months. Only last spring I wrote a short article in which I argued that we needed more economic education on the grounds that every citizen should be capable of independent analytical thinking on current economic issues.[9] But I am no longer so confident. The experience with high school teachers this summer gave me cause to re-examine this position and to modify it a bit more than slightly.

These were no ordinary group of college sophomores. They were a carefully selected group: unusually gifted intellectually and highly motivated. They, to a person, had a tremendous desire to go home after six weeks prepared to meet their classes. And to put it bluntly, this is exactly what they wanted:

"Tell us what we should know about economics." "Give us some illustrations that can be used in the classroom." "Where can we get materials suitable for our use?" "What textbook should be used?" This was their continuing frame of reference. In short, they had little patience with abstract theoretical reasoning. They wanted answers.

But before we are too quick to write them off, let's look at their case. I submit that one of the major reasons for economic illiteracy is that we are conditioned to talk only to each other. Samuelson has remarked that economic scholars work "for the only coin worth having—for their own applause." Leonard Silk sees a real danger in this exclusivity for if "carried too far ... it may cut economists off from the public they must serve."[10] We do tend

---

[9]"Every Man His Own Economist," *North Texas Business Studies*, Spring, 1964, p. 59.

[10]*American Economic Review, Papers and Proceedings*, 1964, 601.

to talk to each other in a language that only the initiated can understand. Or we talk to sophomores who can't talk back. Or we talk to graduate students who can, and then we are tremendously impressed with what an outstanding job we have done. But this professional pride, this devotion to exclusivity, this commitment to pedantry, has been an obstacle to the elimination of economic illiteracy. It has cut us off from the public we must serve.

DE-EMPHASIZING ABSTRACT THEORY AND ANALYSIS

What I am currently contending is that probably in the standard Principles course and definitely in attempting to bring economics into the high school classroom, we are going to have to de-emphasize abstract theory and analysis. I will be the first to admit that drawing curves on the blackboard can be exciting, challenging and stimulating—to economists and to graduate students. But for most students it remains an exercise in pedantry and sophistry, perhaps even sorcery, and therefore an obstacle to the lessening of illiteracy.

This does not mean to imply that there are not areas where true economic literacy should be expected, if not demanded. Let me cite a case in point:

Last January, Dr. Heller was testifying before the Joint Economic Committee and Senator Miller was questioning him. Let me quote briefly from this examination:

> *Senator Miller*: Let me pursue this a step further. [According to your testimony] we had $81 billion real increase in GNP in the 2 years.
>
> *Dr. Heller*: Yes sir.
>
> *Senator Miller*: Now if we are really looking for economic expansion, wouldn't we subtract from that the ... $21 billion ... increase in the national debt? Then take another $12 billion off that, which represents the increase in State and local debt during this time, and you will get down to around

> $35 billion of what many people I think would consider genuine *bona fide* economic expansion.[11]

Now this is indeed genuine, bona fide economic illiteracy, and I would contend that we should expect, or at least hope for, economic literacy in the U.S. Senate.

But my point is that the aim of universal economic literacy is simply too ambitious, too grandiose. I simply do not believe that we can make every layman into a part-time economist. Perhaps we can through the high schools, through our own speeches and writings for the public, help them see that there is a body of knowledge and understanding called economics and that this body of knowledge does not conform to ordinary folklore and mythology.

I submit, therefore, that we may have to reorient—to teach what we do know; and in spite of our many professional differences and arguments, we do know a great deal. I suggest that we use abstraction and analysis only as a second line of defense. In short, we really should only expect the high school teacher, and to a lesser extent the high school student, to know some of the conclusions. We shouldn't even try to lay the ground work for each of them to be capable of independent, rational, analytical, economic reasoning—as commendable as that indeed is.

Professor Gilliam correctly noted that "without rational thinking there can be no economic literacy." Undoubtedly, this is so. And, as an economist, I ought not to challenge it. But perhaps this is only one kind of economic literacy—the kind we would hope for in the long run. But I am inclined to think we probably should set our goals a bit lower, be willing to settle for less in the immediate future.

Let me illustrate with a personal example or two and, in so doing, hopefully touch on a favorable memory chord. I took six hours of chemistry and six hours of biology as an undergraduate. As I look back on this experience, I don't believe my professors ever pretended to make me think like a biologist or a chemist. That is, there was no attempt to make me a literate in these fields—one

[11] *Hearings*, Joint Economic Committee, 1964, Part I, p. 59.

who could think, write, argue as an independent, as a professional. But they did make me less of an illiterate. They did dispel a great deal of ignorance and misunderstanding. I came away less sure and less dogmatic about many previously-held convictions. In short I don't believe that I am literate in these fields; but I am, I also believe, considerably less illiterate.

And thus for economics in high school. We should indeed strive to eliminate or at least mitigate illiteracy, but perhaps not really strive for universal economic literacy in the immediate future.

Economics as a Science

A paper presented before the Texas Academy of Sciences, Stephen F. Austin State University, Nacogdoches Texas, March 13, 1971.

COMMENTARY BY SUSAN DADRES

Speaking to the Texas Academy of Sciences, Cochran points out that economics has the same goal as all other scientific inquiry—to understand, explain, predict, and control. He notes that although economists have not had the same success with physical experimentation as physicists or physicians, 200 years of trial and error have generated enough knowledge to motivate the Nobel committee to offer a prize in economic science.

This speech provides an excellent historical account of the evolution of economic science, as only Professor Cochran can deliver. From the details of Mercantilist society to Adam Smith's conclusions about the possibilities of free markets and the debates about the role of government arising during the Great Depression, this paper demonstrates how economics as a science has been shaped by the pressing problems of scarcity and the modern debates surrounding stabilization policy.

Ending with the very optimistic observation that today, nearly all of us are Institutionalists, Cochran concludes that "we are no longer content to let nature have her way, but want instead to use our accumulated knowledge, theories, and techniques to make the economic world a better place for all of us.

ECONOMICS AS A SCIENCE

I have been invited to explain economics as a science. This I am pleased to do, for it is only recently that economics has been identified as a science. This is readily understood when we recognize there are at least two major types of economic analysis. First, there is the intuitive, or, "I personally feel," type—of which we have millions of varieties, for truly in Economics, as in no other field, every man is an expert unto himself. Then, there is economics as a science: an accumulated body of analysis and methodology whose function is to make the complex world of economics understandable, through abstraction and generalization, through research and statistical analysis.

Understanding, explaining, predicting, and controlling are the goals of any scientific inquiry, whether it be medicine, physics, or, economics. One major difference, however, separates these disciplines: the ability to validate a theory by physical experimentation. Thus, doctors of medicine can test the validity of a new theory by controlled administration of a pill. After X number of pills, if too many patients develop tumors—well, there's always tomorrow and another theory, and another pill. Physicists can explode atom bombs, or send men to the moon.

Economics, however, is not so demonstrably successful in its experiments. The economist can predict the effect of a change of one variable on another, while holding all other things equal in his mind's eye. While this does not seem quite as "scientific" to the layman as the closed laboratory and the white coat of a chemist, during the nearly 200 years of its existence as a separate social science, economics has emerged with a fairly good record of understanding and explaining how the economic system operates efficiently, why it sometimes operates not at all, and based on these understandings, what can be done to make it work better. And for these successful efforts, economics has finally received the recognition of an annual Nobel Prize. This success, this recognition as a scientific discipline, did not come quickly or easily, however. It is rather, the cumulative result of some 200 years of trial and error, of advances and retreats, of successes and failures. As an introduction to this science, I would like to trace for the non-economists the gradual evolution of our discipline. This will admittedly he brief and cursory, for only the major accomplishments can be cited in the few minutes available.

First, then, economists take as their basic point of departure, the relative scarcity of resources, and man's demands upon them. Individually and collectively we want more goods and services than can be produced. This central, eternal, fact poses the basic set of questions which economists try to answer in a scientific way—scientific, meaning carefully isolating and stating our assumptions regarding human behavior, the institutions of society, the state of technology, etc. Then, from these assumptions we state certain hypotheses and from these we draw logical conclusions or predictions. Economics, as a science, is essentially a series of "if … then" predictions. It is because each prediction can be verified or rejected that we can distinguish economics as a science from the intuitive or “I personally feel” method of analysis.

Assuming a world of scarce resources, the economist tries to show how certain decisions are made, how certain questions are answered. The critical ones for any society are:

(1) How these scarce resources are allocated to satisfy individual and social wants—i.e., what goods are to be produced.

(2) Who gets what and how much of this economic pie?

(3) What determines the overall or total level of income, output, employment and prices, and

(4) The sources or causes of economic growth.

Since this fact of relative scarcity is as old as man himself, why has economics not yet celebrated its 200th birthday? The basic reason is quite simple: for most of man's history he was so miserably poor, so locked in the chains of tradition, that there simply were no meaningful alternatives to the status quo. And so, for most of man's history these basic economic questions were answered by tradition and/or by command. (*The Worldly Philosophers*, pp. 10–15.) Man produced what his father produced, using the same techniques and know-how. Or, he produced what he was told to produce—castles and pyramids, for example. And as long as the central problem of scarcity was handled this way, then there was no call for economists to explain anything.

But somewhere toward the close of the Middle Ages this closed system of production and distribution began to disintegrate. As John Strachey, the British historian, has said:

> As the slow centuries of the Middle Ages wore on, the cultivation of the soil became more rational, methods of transport improved, roads grew a little more passable, ships a little more seaworthy. At length (sometime about 1400) the possibility, the actual physical possibility of the exchange of goods on the great scale, the possibility of the market, became considerable. But that did not mean that the modern free market was forthwith established. On the contrary, deep-rooted and formidable institutions, fixed ideas, religious, political and social, all perforce founded on the impossibility of the market, stood flatly in the way. Accordingly they had to be, and were, dynamited out of the way. It took, however, some four centuries to do it. (*Coming Struggle for Power*, p. 13.)

These four hundred years witnessed the gradual evolution of a market economy—one of buying and selling things, hiring and firing people, lending and borrowing money; one where *monetary* transactions were predominant. This was what we later call Mercantilism—a curious amalgam of pamphlets and articles written mostly by merchants to support the political and economic interests of merchants and the monarchy. Relying on the issuance of monopolies, charters, patents, licenses, etc., the central government determined what was to be produced, who would get what, and, in what amount. All in all, Mercantilism was fairly successful in destroying the last vestiges of feudalism and in making these new nation-states economically powerful and self-sufficient, and in establishing the market mechanism—money—as the central, pervasive, feature of economic life.

But by the middle of the 18th Century, these old rules were no longer adequate to the needs of the day. The merchants and bankers and businessmen no longer needed and no longer wanted regulation or control. Then in 1776 a mild, absent-minded Scottish professor of moral philosophy provided a viable alternative—this was, *The Wealth of Nations* by Adam Smith.

And so was born the science of economics. What Smith was able to demonstrate, at least to the satisfaction of his contemporaries, was that government regulation of economic processes was not only unnecessary, but in fact a positive hindrance to the efficient allocation of resources. Smith's basic argument can be put in the form of an "if ... then" statement: *If* man is naturally greedy, and *if* he naturally tends to truck, barter and exchange, and *if* he is freed from governmental control and interference to follow these natural instincts, *then* a free competitive market would emerge in which a man could make a profit only by following the dictates of the consumer. Scarce resources would thus be allocated to satisfy the most important wants of individual consumers, and, due to the inexorable forces of competition, at the lowest possible cost.

Smith's monumental work demonstrates two important facets of the science of economics: the normative and the positive. Positive economics explains what is, whereas normative economics tells what ought to be, or, what we *should* want. This is what Smith's work was mostly all about. He was saying that society *should* want resources allocated according to the preferences of individual consumers, rather than according to the dictates of some far distant legislator. Further, a laissez-faire, market-directed, economy was simply the best way to achieve this obviously better world. Thus it also had its positive dimensions, for Smith was able to demonstrate, by the use of logic and generalization, how a laissez-faire, free-market mechanism would actually work, how it would in fact make the best possible decisions regarding the allocation of resources. This, then, was the beginning of economics as a science, because the idea of a free unregulated market was not Smith's intuitive, "I personally feel," it would work, but was demonstrated as a logical, rational, result of certain assumptions.

Smith's normative economics, what society ought to want, was a fairly instantaneous success. Mercantilism was dismantled and the era of laissez-faire capitalism dawned. As the *science* of economics developed in the 19th Century, it became, however, essentially a positive science, explaining by logical analysis, how and why a free market allocates resources and thus independently determines what to produce, in what amounts , who gets what, and, in what amounts. In the hands of the 19th Century economists this body of thought evolves into a beautiful, orderly, systematic, set of generalizations and abstractions. By the end of the 19th Century it becomes, in the hands of Alfred Marshall, a thing of beauty. By careful selection of assumptions, by the use of orderly logic and a smattering of mathematics, Marshall establishes a separate kind of economics. What we today call Microeconomics. This is the analytical method which focuses on individual prices. Thus, other things being equal, meaning other prices and costs remaining constant, Micro economics explains what determines the price of wheat, or the price of steel; or, the wages of labor, or the profits of capital. Marshall provided orderly and systematic insights into these processes and thus gave us a still better, i.e., a more precise, understanding of how a market economy answers the eternally vital question of what to produce, in what amounts, and who gets what.

Most importantly, however, Microeconomics gives us a rather precise set of criteria—I started to say yardstick, but it is not quite that precise—but a set of criteria by which we can improve economic efficiency. By following these criteria we can produce more of one good and not have to produce less of another. This is the meaning of economic efficiency at the micro level.

But in perfecting Microeconomics, i.e., the impact of individual economic decisions, the overall level of economic activity was simply taken for granted. It was more or less assumed that the economy would always make maximum use of its available resources and manpower. An early 19th Century French economist by the name of Jean Baptiste Say had demonstrated that a general overproduction of goods was a logical impossibility. It simply could not happen. Whatever was produced would always be consumed. This, Say's Law of Markets, won the intellectual admiration of the 19th Century economists, and as a consequence, the overall level of employment and output remained with the assumptions, with the givens. (Like the state of technology, or man's psychological nature, we took it for granted.)

This was one of the more serious errors committed in the evolution of economic thought, an error, incidentally, for which we cannot blame Say. Say had simply demonstrated that given certain assumptions (e.g., man is greedy, money has only one function—to spend; that all money income will be spent), then it is logically impossible for the economy to produce more than it could consume.

As an exercise in logic it was perfect. As an approximation of the real world, it was substantially correct in Say's time, and would be substantially correct in any poor, underdeveloped economy today. But the simple, atomistic, brewer-butcher-baker economy of Smith and Say underwent drastic, revolutionary changes in the 19th Century, and as a consequence, the real world of industry and finance and giant corporations differed radically from Say's abstract model. The if's of the "if ... then" model were no longer accurate approximations of human behavior. Thus, when the depression of the '30's descended upon the western world, there was little we economists could say except, "it will correct itself if only we would leave it alone." So, President Hoover correctly translated this to the public when he proclaimed that "prosperity is just around the corner," and the level of income, output, and employment continued to stagger downward, while economists and soothsayers alike looked on helplessly.

With the publication in 1936 of Keynes' revolutionary book, *The General Theory*, a new era, a new branch of the science, was ushered in. This is what we call Macroeconomics. In this discipline we ignore or bypass the price of wheat or the output of steel, and concentrate instead on the total level of income, output and employment. We have dropped the premise that these levels are automatically self-correcting toward full employment or maximum capacity, and have developed instead, a theoretical explanation of the forces defining and determining these levels, and an extensive body of statistical data to support these theories.

These national income and product data are a prime requisite to understanding what the economy is doing, and where it is going. They are as indispensable to the economist as the periodic table is to the chemist, and are as common to the language of congressmen, senators and presidents as to economists. Indeed, as Harvard's Alexander Gerschenkron has said,

> It is difficult indeed for the present generation, for whom macroeconomic statistics have become the daily bread of professional lives, to believe that only half a century ago or so national income was derided by an outstanding economist as an interesting toy, a mere plaything, not to be taken seriously. (*Perspectives in Economics*, p.23)

What these data tell us is how well—or poorly—the total economic mechanism is doing. And what their granddaddy—macro economic theory—tells us, is what we can do to make it work better—better being defined as high levels of income, output and employment. Thus, while you may not understand them in detail, most of you have become fairly familiar with our tools, techniques, and jargon. The gross national product, the level of unemployment, the rate of inflation, levels of government taxing and/or spending, the role of the Federal Reserve System in managing the money supply, are all grist for the mill of most, if not all, daily newspapers. I am not suggesting that economic theorists and policy makers have solved all of the problems—to wit, our current high levels of unemployment and inflation. But the revolution is well toward being won because nobody believes any longer that these matters are self-correcting or self-adjusting. And it is, I believe, in this context, that President Nixon recently identified himself as a Keynesian.

One other chapter in the evolution of modern economic science must be noted briefly. This was the contribution by an American school of economists known as the Institutionalists. Their main contribution was, I believe, to turn economics from a relatively passive, armchair discipline, to an active, participating endeavor to improve, to correct, current economic conditions. Knowledge should be used as a tool for social and economic criticism, for social and economic reform. Rex Tugwell, who became famous as one of President Roosevelt's brain trusters, once defined theory as, "trained intelligences that grip with the problems that are the crucial ones of modern life," and thus when one "theorizes, he is thinking about ways in which institutions can be made to work better."

Some of these economists founded The National Bureau of Economic Research and launched countless case studies, investigations and inquiries, all from the premise that understanding a problem in its setting necessarily precedes improvement or correction. And improvement, correction, control, were the identifying badge of this school.

As Wesley Mitchell, one of the founders of the National Bureau, once said,

> .... few of us have been willing to trust what Adam Smith regarded as "natural" forces. Instead, we have cherished ambitious designs of harnessing social forces much as we have harnessed steam and electricity. (*The Backward Art of Spending Money*, p. 95 .)

The Institutionalist writings emerged during the decade of the 1920's, a time when orthodox economics largely confined itself to armchair reasoning about price equilibrium in the long run, and was, therefore, so ill-prepared for the depression of the Thirties.

Today all of us in this sense are institutionalists. Or at least nearly all of us are. There are a few who are not, Milton Friedman of the Chicago School being the best example of one who would still insist that man has no place, individually or collectively, in trying to regulate the economy. The thing will regulate itself best when left alone, he would say. This view has, however been rejected by the vast, vast majority of contemporary economists.

As I said at the outset—understanding, explaining, predicting and controlling are the goals of scientific inquiry. And this is where economics—the science of economics—is today: micro and macro, normative and positive, deductive and inductive, exploratory and participatory. We are no longer content to let nature have her way, but want instead to use our accumulated knowledge, theories, and techniques to make the economic world a better place for all of us.

PART 5

BOOK REVIEWS

MEDICAL COSTS, MORAL CHOICES: A PHILOSOPHY OF HEALTH CARE ECONOMICS IN AMERICA

By Paul T. Menzel. New Haven and London: Yale University Press, 1983. 260 pages.

Review published in *Journal of Economic Issues*, Volume 18, Issue 4, (December, 1984), pp. 1247–1249. Reprinted from the *Journal of Economic Issues* by special permission of the copyright holder, the Association for Evolutionary Economics.

This book is a successful attempt to explore two basic facets of contemporary health care: (1) the complex dilemma facing society because it adopted an essentially moral commitment to provide basic health care to everybody, and (2) how to cut the costs of health care—because those costs have escalated beyond any possible *a priori* expectation (per capita expenditures have increased by more than tenfold between 1950 and 1980).

Paul Menzel explores with care, and in depth, the moral and ethical issues of contemporary health care practices: What is life worth? Are rich people more valuable than poor? Should health care be in the form of cash payments to the doctor—or to the poor to pay the doctor? Should resources be directed toward prevention or cure? What priorities can we establish for research?

Should medical expenses be tax deductible? Should young people get more medical resources than old people? Are physicians' incomes too high? And so on and on.

The book raises many more questions than it answers. And rightfully so, but they are essentially important questions that any socially responsible person must at least acknowledge.

To cite one in some detail: Are physicians' incomes too high? They averaged $71,000 in 1978, compared to college and university professors, who then averaged $22,000. (Hospital-based pathologists and radiologists earned "roughly $160,000 and $145,000 respectively.") Menzel carefully analyzes some of the reasons why these incomes are so high: human capital theory, monopoly control of supply, physician-created demand, fee-for-service and third party payers all play a part. But it is primarily because "doctors create a demand for their services, by prescribing more services or by charging higher prices: they target their incomes and hit the target no matter how large the supply of doctors grows." The unfortunate moral side effects are that "a considerable number of patients lose some of their trust when doctors become directors of banks, real estate speculators, owners of shopping centers, and so on."

Having made the case that doctors' incomes are probably too high by any morally defensible standard, Menzel has little to offer to lessen this inequity: while "we do want physicians to gain a healthy income" we need not give them a "blank check of monopolistic control." His only solid recommendation is to "take away organized medicine's control over licensing."

Menzel typically does not set for himself the task of finding solutions to the ever-rising costs of medical care. What he does do, and with considerable talent, is explore the moral and ethical issues underlying the social dilemma of how to increase the availability of an expanding fund of medical knowledge without seriously diverting resources from other social priorities. Because government, insurance companies, and other third party payers increasingly subsidize health care services, the costs of health care delivery are accelerating upward faster than any other package of services in the GNP.

One consequence has been a plethora of studies in health economics stressing various cost-containment and/or cost-cutting proposals. Menzel synthesizes the major ones, including increasing patient cost-sharing, eliminating federal tax breaks for medical expenses, creating truly competitive forces in health care delivery, and encouraging prepaid health plans.

He explains which groups would benefit and which would not, and some of the merits and shortcomings. He also summarizes alternative payment plans proposed in several recent studies. He assesses the pros and cons of the different systems of payments, although somewhat superficially. The book's main deficiency is Menzel's inadequate examination of the British National Health Service alternative or the Swedish and German experiences. This is a serious omission in an otherwise excellent study.

What Menzel has done is to bring into focus, in one well-organized and well-researched work, many of the financial and philosophical issues of health care. He presents the opposing points of view regarding the allocation of resources by various non-market forces. He also reminds us that despite larger outlays for expanded health care, there are still many imperfections in our system allocating resources to health care. But the present system of health care distribution, with all its inequities, injustices, and inadequacies, is still a major step toward better medical care than would be realized under any possible allocation by a free competitive market.

WEALTH AND POVERTY

By George Gilder. New York: Basic Books, 1981. 306 pages.

Review published in *Social Science Quarterly*, Volume 63, Number 4 (December 1982), pp. 793–794.

It is impossible to assess the overall value of the book, simply because it will be judged by so many differing criteria. One reviewer/assayer claimed its appeal would be "for the new graduate who wants to exchange academic theory for practical reality," while others regarded it as little more than "an evangelistic defense of capitalism" or an "ode to the economic and moral benefits of unfettered capitalism." It has also been judged as "The Emancipation Proclamation of 1981," and been discarded as "voodoo economics." Whatever the *a priori* assumptions of the reader, it will not be easily dismissed.

Nor should it be. It is a serious work, and it should be taken seriously, both by those who applaud its conclusions as long overdue and by those who reject them as long overdone.

This is a book that has to be read. No review, no article. no brief essay can capture the spirit of this work. As almost everybody knows by now, it is the bible of those who, as an article of faith, believe in supply-side economics. And make no mistake, "faith" is the prime prerequisite. Thus those who share a given set of assumptions will applaud and find comfort and solace in every line. Those who have long ago rejected this particular view of man and his social environment will react with shock, anger, amusement. Few will be untouched by reading it.

According to Gilder, the U.S. economy is in serious trouble. Inflation, broken homes, crime in the street, rotting inner cities, are not the problem, however. They are only the outward manifestations, the symptoms, of the malaise that has eaten away at the vital organs of this once healthy, burgeoning, growing, and vitally dynamic economy of plenty. Those golden days of yesteryear can be recaptured—but only if we destroy the cancerous tumor that is eating away at what remains of that once healthy and vital body politic.

The central cause underlying this complex problem is disarmingly simple: the welfare state (that is, "the eleemosynary state") has supported too many lazy, indigent, able-bodied men, women. and children who prefer the dole to productive employment. And to support these paupers taxes have been raised to such astronomical heights that personal savings—the very lifeblood of the free enterprise system—have been eroded away. The solution is both obvious and simple: do away with all forms of welfare and mount a massive tax cut on personal income. This will lead to a significant increase in personal saving which will automatically become new investment in plant and equipment. Thus new employment opportunities will be created for those previously on welfare.

These ideas are of course, as old as any to be excavated in the economist's diggings. Adam Smith built his monumental edifice on the basic premise that personal savings were synonymous with capital formation. Ricardo and Say believed that any act of saving meant an increase in the stockpile of plant and equipment.

Ricardo also argued that "every friend of the poor must ardently wish for the abolition of the Poor Laws [Welfare Payments] since it is abundantly clear that they serve only to deteriorate the condition of both the poor and the rich."

There is relatively little that is new in Gilder's work. These are old and familiar arguments. But the assumptions, the *a priori* premises upon which his arguments depend, deserve close attention. Of primary importance are his views on poverty. According to Gilder, "The poor know that their condition is to a great degree their own fault or choice." The "opinion that racism and discrimination still explain the low incomes of the blacks is at once false and invidious." It was specifically the War on Poverty that "halted in its tracks an [already] ongoing improvement in the lives of the poor." As a direct consequence, "the condition of blacks has radically worsened."

These views stem directly from Gilder's specific assertion that "real poverty is less a state of income than a state of mind." In other words, being poor has nothing to do with low income, because real poverty is only a "state of mind." I can now finally understand what was meant by "Let them eat cake." Once that premise is accepted, once we understand that real poverty is unrelated to the misery of not having sufficient income to buy either bread or cake, we can understand what poverty is really all about. It is only a state of mind. It is the way the poor look at themselves—their mental attitude. Only when we grasp that elementary point can we identify the "moral hazards that cause this poverty." If we could eliminate these "moral hazards," we could obviously eliminate poverty! Gilder emphasizes the more important of these moral hazards. They are unemployment compensation, aid to families with dependent children, disability insurance, social security payments to the aged and the disabled, training programs for ghetto youth, meals for the elderly, etc., etc.

The list of these "moral hazards" is not endless, but it is lengthy. And the solution is simple: "To the degree that the moral hazards (poverty of the mind) exceed the welfare effects [low income] all these programs should be modified, usually by reducing the benefits." Since that degree is ultimately a "thing of the mind" and cannot be measured, it follows that we must simply eliminate most of these moral hazards and get back on the track of material progress and free enterprise, from which we have been diverted for the last few decades.

According to Glider, we really have no choice, because "the only lesson" of this new economics is the absolute first priority to "enhance investment and productivity by lowering the now confiscatory tax rates on high incomes from investment." "The crucial question in a capitalist country is the quality and quantity of investment by the rich." "The single most important ingredient for economic growth and material progress is private rights to property."

Gilder's thesis ultimately rests on the avowed recognition that "material progress is ineluctably elitist." Thus the truly significant lesson to be learned from the last two centuries of progress is that the whole purpose of progress is to make the rich richer. It exalts to new heights of material prosperity "the few extraordinary men" who are responsible for the savings and the innovating that makes this all possible. Since they create it, they deserve a larger share of the proceeds. But to realize that larger share, we must first eliminate the welfare programs which have absorbed the savings of the rich.

Thus the quality of life, as measured by a social responsibility for meals on wheels, psychiatric counseling for the elderly, aid to the families with dependent children, free school lunches for needy children, unemployment compensation benefits for the unemployed, student loans and jobs, ... will all be replaced by massive tax cuts to stimulate new job opportunities for those same disadvantaged individuals.

This book could most appropriately be titled *Horatio Alger Revisited*, with appropriate footnotes, documentation, and anthropological and historical illustrations. If the reader brings a basic belief in Horatio Alger (By Pluck, Not LUCK). then this book will make eminent good sense. "Just what I've always known!" And to those faithful, the argument is most appealing. Inflation, collapsing productivity, disintegrating family life, crime in the cities, a booming underground economy—are all "caused or made worse by the destructive pattern of taxation" which has destroyed the will of the rich to save. And this is crucial, for according to Gilder, "it is psychological forces above all else that shape the performance of the economy." To free these psychological forces, we need only to eliminate the massive burden of the welfare state and enact equally massive tax cuts for the rich.

That the rich will then invest these savings in new productive capacity rather than acquiring a baseball team or reveling in private jets, cocaine, designer clothes, art collections, and extended vacations at the Riviera, is the sanguine hope on which this house of cards stands.

COMMON DECENCY AND DOMESTIC POLICIES AFTER REAGAN

By Alvin L. Schorr. New Haven: Yale University Press, 1986. 246 pages.

Review published in *Journal of Economic Issues*, June 1987, pp. 941–944. Reprinted from the *Journal of Economic Issues* by special permission of the copyright holder, the Association for Evolutionary Economics.

This is a social agenda for those who want to pursue an extension of the welfare state so abruptly sidetracked by Ronald Reagan. But this new welfare state of Alvin L. Schorr's is something broader and deeper in its aims and intents than what we have known in the past. What he seeks is "to allow all or most citizens to feel a sense of community, that is, of a common fate and common prospect." Achieving a welfare state that incorporates a "sense of community" is the prime task, and one that Schorr discusses in great detail. He begins with the history and present welfare state in the United States and attempts to move forward from there to "the objectives that decent people would pursue." These primary objectives are, first, "fair shares," or a nearer approach to equality in income distribution. A "true welfare state will eliminate or at least reduce poverty." This would require a massive redistribution of income from the 40 percent of the population with the most income to the 40 percent with the least. Schorr notes that while this may seem "formidable," we have in recent years "far exceeded that magnitude in the opposite direction."

The second of the decent goals is “mainstreaming income maintenance and social services." This is the opposite of means-testing—whatever the primary criteria for entitlement, need or income would be excluded. In the good society that Schorr envisages, income maintenance would be a matter of community right because "means-testing tends to segregate and stigmatize."

The third goal is full employment. While Schorr believes economists disagree as to the natural rate of unemployment, his "new welfare state must take as a premise the nearest approximation of full employment that is possible," because full employment is a necessary prerequisite to fair shares. Both are vital in creating a more egalitarian division of income and in achieving the citizen's sense of participation in society.

The fourth goal, "selective decentralization," is by far the weakest case in his five-point program. It is not clear which functions are to be "selectively decentralized," and which are to be (or remain) centralized. This reviewer had the feeling that the author simply had an *a priori* belief that neighborhood solutions are to be pursued where feasible, and that is about as much of a case as was made.

The fifth goal, "integration," requires "contact and communication between ethnic groups" and is a necessary objective because racism is so extensive and deeply rooted in our present society. It must be eliminated if "a real sense of community is to be realized."

Having presented the essential ingredients of his new welfare state, Schorr analyzes the history and the present status of our extant welfare system and his specific recommendations for four areas: income security, aid to women and children, housing, and public health. James P. Comer adds a chapter on education.

The section on "income security" is largely a review of our present social security programs and how these could be changed to meet his basic principles: that social income should be a matter of right or entitlement, such social benefits should be related to a record of work and to individual contribution; and at the same time such benefits should be geared to favor those with the lowest incomes.

In the section on Aid to Families with Dependent Children, Schorr addresses his belief that while we have had some success in meeting the needs of specified *individuals*—the disabled, retired, unemployed, widowed—we have failed to meet the needs of children and their families. It is their needs to which he addresses several proposals, the most important of which is a refundable tax credit. This would be a "credit against income taxes or a cash payment when income taxes are not owed." This, a form of negative income tax, is proposed as a substitute for personal income tax exemptions since it would be of more direct benefit to the poor; it would also replace the current AFDC program. Schorr makes a good case for the simplicity and directness of such a subsidy program versus the exceedingly complex application process for benefits under AFDC. It would also meet his original premise that all social benefits should be a matter of right or entitlement, not proven need.

With respect to housing, "the nation's most severe and persistent social problem," four clearly overlapping problems are identified: segregation in residential housing, woefully inadequate housing for poor people, the persistent climb in all housing costs, and an approaching crisis in overall supply. He traces the history and present status of each of these problem areas and suggests policies and reforms for each. All in all, it is a fairly bleak picture, as this remains the most intractable of the areas in need of improvement if the new welfare state is to be realized. The first step to realizing better housing will be a more equitable distribution of income, according to Schorr. As poor people receive a larger share of the national income, they will receive a larger share of decent housing. This, however, is a long-term goal, and in the meantime Schorr believes various subsidies and public investment programs will be required .

The chapter, "Education for Community," was written by James P. Comer. It roughly parallels the other chapters in outlining what the basic dimensions of a better—more equitable—welfare state would be: to provide the educational experience to "maintain a climate of community, to promote general welfare, and to develop our democratic society." And because of our experience with public education thus far, he concludes that it would "not be rational to allow financial support for education to rest on the resources of local communities alone."

In the section on public health, after reviewing the history of public health care in the United States—primarily Medicare and Medicaid—the author concludes that the goals he champions, "quality, access, equity, and reasonable cost," were subverted by the overwhelmingly powerful private health industry. To achieve these goals he would opt in his welfare state for some form of National Health Insurance. In an idealistic system he would choose some form of National Health Service where physicians would be employed, and facilities owned, by some federal agency.

The book concludes with a short and thoughtful chapter, "Policies for Decent People." Here he discusses with passion and conviction the importance of identifying a "common fate and a common prospect," so vitally important if a new and decent welfare state is to be realized. He notes the many difficulties and obstacles (particularly, racism) stemming from our history and our inherited value structure, but he believes it is still possible that "we may yet build a society that is just and fraternal."

Mr. Schorr, a Professor of Family Welfare at Case Western Reserve University, is not an economist, and the book suffers from his incomplete understanding that not all economists (including most of the readers of this journal) believe there is a "normal rate of unemployment." But it is a good book for anyone concerned with economic issues such as the welfare state and what might be done to make it more compatible with the goals of decent people.

WALL STREET AND SECURITY RISK

By Hurd Baruch. Baltimore: Penguin Books, 1972. 356 pages.

Review published in *Journal of Economic Issues*, December 1973, pp. 710-712. Reprinted from the *Journal of Economic Issues* by special permission of the copyright holder, the Association for Evolutionary Economics.

This stimulating and intriguing work is a detailed expose of the stock exchange; it reveals the appalling lack of customer protection, the fraud and deceit, the misuse or misappropriation of private funds and negotiable assets, and the rickety or nonexistent capital structure. Indeed, *caveat emptor* has found its fullest expression here. The underlying cause of these deficiencies, according to Hurd Baruch, is "the breakdown of self-regulation," which has been little more than a myth, a "euphemism for non-regulation, a force for the preservation of the age-old law of the marketplace, 'let the buyer beware.'" Self-regulation simply has not worked, and in the author's view the time is past due to find another method of policing the industry for the protection of its thirty million customers.

There are four glaring weaknesses with which self-regulation has failed to cope. First, within the atmosphere of this closed club, some firms are "more equal than others." Thus, when the stock market found itself in serious financial straits, the members of the club let the smaller firms slip down the drain without batting an eye, but then they rushed to the financial aid of the largest firms. Merrill Lynch was paid $20 million by the club to take over Goodbody, for example.

A second major weakness is the very thin capitalization of the brokerage firms. In effect, the business is run almost exclusively on customers' assets. Undoubtedly, most naive customers think that the broker exists to make him—the customer—rich. Quite to the contrary! The function of the customer is to supply the cash and securities to the broker so that the broker can become rich—using the customer's money. When a brokerage firm needs liquid assets, it simply uses cash that its customers have put up. These funds can indeed be sizeable: The 1970 free credit balances of Merrill Lynch totaled over a third of a billion dollars. The aggregate free credit balances held by all the stock exchange member firms has varied between $2 and $3.7 billion during the last three years. Equally deplorable, according to Baruch, is the fact that the broker uses not only the customer's cash balances to finance his operations, but also the customer's stock which he is holding, presumably, in trust. The most common technique is to use the stock as collateral for a bank loan that the broker negotiates. Baruch therefore urges that regulations similar to those of the commodity exchange be promulgated for the stock exchange. The broker would be prohibited from using his customers' money as his own.

While most business firms have raised capital funds by borrowing from the public or selling stock certificates to the public, the brokerage firms have resisted doing this because "they did not wish to pay the price of public ownership—a share of the profits and the disclosure of information about their operations."

The third critical problem stems from the physical handling of the stock certificate itself. This "paper work blizzard" mushroomed from a daily average volume of four million shares in 1961 to as much as 21 million shares a day in the late sixties. The fact is that the firms were totally incapable of handling this volume of paper shuffling. Simply to record a single transaction, "dozens of forms and memoranda in multiple copies must be prepared, executed and filed." Because the volume became so large and unwieldy, many firms simply did not record the transactions and records, and others were at best sketchy. Lehman Brothers, one of the most prestigious and powerful firms on Wall Street, unaccountably lost some $700 million of securities and thus "demonstrated that self-regulation has inherent defects, especially where the more powerful members of the industry would be adversely affected."

While the stock certificate does have specific uses, among the more important of which is that it is a negotiable instrument which can serve as collateral for a loan, Baruch nevertheless makes a rather compelling case for its prompt elimination. The physical transfer of the stock certificate upon purchase and sale simply has become too cumbersome to be tolerated in an electronic society. Like cash, it will have to be replaced by electronic bookkeeping. The overwhelming flood of paper work which transpires daily and which brings trading to a standstill on a busy day would be eliminated; with computerized accounting the transactions would be immediate and delivery problems would cease to exist.

The fourth critical problem stemming from self-regulation, or better, self-*non*regulation, is the lack of competition in setting the broker's fee. Although brokers insist upon the virtues of competition in the marketplace, they rigorously and strenuously try to keep to the fixed fee. Baruch's solution for this problem is really very simple: Remove the stock exchange exemption from the antitrust laws, and enforce the antitrust laws in the stock exchange as they are enforced elsewhere.

To achieve the necessary reforms Baruch makes two other basic recommendations. First, the regulatory body (the commission) should be self-funding. That is, it should collect fees from the brokerage houses large enough to provide a budget sufficient to enforce the rules that do exist. Second, the members of the commission should be appointed by the President, as now, but the first five-year renewal should be automatic. The supervisory members would have a longer tenure than they do at the present time. This presumably would render the SEC a completely independent body and thus permit it to supervise and regulate this most important industry from the public's, rather than from the industry's, point of view. This, it would seem, is one of the weaker and more naive of Baruch's suggested reforms: If the industry is to finance it, how could we expect it to do anything but serve the industry?

The author is a senior staff member of the Securities and Exchange Commission, and this book is the result of his experience there. It is a long, detailed, and well-documented indictment of the serious and grievous patterns of behavior within the stock market. It leads one to doubt that the market is indeed the viable and inherently strong institution that it claims to be. Baruch makes the case for needed and long overdue reforms if the stock market is to serve the important function that the financial community of the U.S. economy desperately needs. It should be required reading for anyone with even a part-time interest in the stock exchange.

INDEX

Adams, Walter 199
Ash, M 3
Ayres, Clarence 6, 7, 13, 26, 31, 147, 176, 184, 195, 208
Baruch, Hurd 248
Bentham, Jeremy 17, 21, 23, 24, 31, 178, 189, 201
Boulding, K. E. 17, 19
Breit, William 31
Carroll, Michael C. 17, 19,
Clark, J. B. 28, 31
Committee for Economic Development.. 211, 213, 214, 215
Commons, John R. 7, 18, 26, 27, 31, 144, 146, 171, 180, 182, 184, 185, 187, 191, 192, 195, 200, 203, 204, 207
Deane, Phyllis.... 169, 179, 184, 189, 195, 207
Dewey, John R..... 95, 144, 146, 185, 187, 190, 195, 197, 199, 200, 203, 207
Dugger, William M. 4, 14, 103, 116, 117, 137, 144, 146
Economic Literacy..... 211, 213, 219, 222, 223, 224, 225, 226
Economic Planning...... 7, 8, 13, 167, 168, 169, 170, 171, 172, 177, 178, 179, 180, 181, 182, 184, 187, 181, 189, 190, 191, 192, 193, 195, 197, 200, 201, 204, 205, 207
Etzioni, A........................ 17, 19
Friedman, Milton... 21, 31, 106, 122, 123, 235
Galbraith, John K. ... 18, 22, 26, 31
General Theory........... 105, 233
Gide, Charles 21, 31
Gilder, George 240
Girvetz, Harry K............. 26, 32
Grampp, William D. 32
Gruchy, Allan G. 32
Hamilton, David 4, 170, 176, 180, 184, 190, 195, 203, 207
Hamilton, Walton .. 7, 173, 174, 183, 194, 195, 206, 208
Herndon, Thomas 1, 3
Institutional Economics. 5, 7, 8, 11, 13,19, 31, 144, 146, 168, 170, 172, 175, 177, 180, 183, 187, 188, 190, 193, 195, 197, 199, 200, 206, 207
Kaplan, Abraham 143, 144, 145, 146, 194
Keynes, J.M... 33, 39, 105, 114, 142, 145, 173, 183, 194, 199, 208, 233
Krugman, Paul............. 2, 3, 92
Lekachman, Robert 111, 115
Lerner, Abba P. 114, 115
Lowe, Adolph.... 176, 178, 182, 184, 188, 192, 195, 197, 201, 204, 207, 208
Lutz, M. A. 17, 19

Malthus, Thomas Robert ... 101, 102, 103, 104, 114, 116, 122, 135, 140, 142, 146
Marshall, Alfred 26, 28, 32, 104, 140, 232
Martin, David D. 116
Menzel, Paul....................... 237
Mill, John S. 32
Mitchell, Wesley C.... 7, 21, 26, 27, 32, 143, 146, 147, 171, 172, 176, 181, 182, 184, 191, 192, 195, 204, 207, 208, 235
Mun, Thomas.................. 23, 32
Myrdal, Gunnar . 108, 109, 170, 171, 176, 180, 181, 184, 191, 195, 203, 204, 206, 207
New York Times 34
Newsweek Magazine.......... 116
O'Boyle, E. J......................... 17
Orwell, George .. 34, 47, 48, 50, 51, 160, 161, 164, 165
Petersen, Wallace G. 116
Petty, William................. 23, 32
Pollin, R.................................. 3
Ransom, Roger L.................. 31
Reich, Robert 2, 3, 92, 102, 117
Reinhart, Carmen................ 1, 3
Ricardo, David. 97, 98, 99, 100, 101, 103, 104, 111, 116, 122, 140, 146, 241
Rist, Charles 21, 31
Robbins, Lionel 21, 32
Robinson, Joan 114, 116
Rogoff, Kenneth 1, 3
Say, Jean B. 32
Schorr, Alvin 244
Smith, Adam 1, 2, 3, 11, 15, 17, 18, 19, 23, 24, 25, 27, 28, 32, 42, 50, 94, 97, 100, 102, 103, 105, 111, 112, 114, 116, 128, 131, 133, 137, 138, 139, 140, 142, 145, 146, 149, 150, 151, 152, 154, 155, 164, 231, 233, 235, 241
Smith, Vernon 19
Stiglitz, Joseph 92
Time Magazine.................... 116
Tool, Marc R...... 147, 172, 173, 176, 179, 182, 183, 184, 189, 193, 194, 195, 202, 205, 206, 207
Tugwell, Rexford G. .. 7, 27, 32, 112, 116, 170, 176, 180, 184, 191, 196, 203, 207, 208, 234
Veblen, Thorstein 7, 12, 18, 26, 32, 147, 182, 184, 192, 195, 204
Wealth of Nations .. 1, 3, 24, 32, 116, 131, 133, 137, 146, 149, 151, 231
Wolff, E. N............................ 19