

**#6. COMPARATIVE ECONOMIC SYSTEMS**  
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3-30-49:

There are two aspects of this course, one concerned with the isms and one concerned with the economics. The literature deals with the first. Actually, there are no isms; they are important, like Santa Claus, not because they exist but because people believe in them.

All economies, of necessity, are mixed. There never was an economy that was capitalism. Economies are discernible in terms of isms because isms affect the structure. They do so in two ways:

1. They actually constitute the prevailing kinds of institutions. Most of our institutions are capitalistic in character.
2. Most institutions (of another ism) are affected in a definite and a particular way by the existence of the belief in the ism that does prevail.

The Cold War is a struggle not between two economies or even two isms, but between persons who believe in two different isms.

Start with capitalism in our study. It constitutes a theory of progress, an accumulation of the things that produce the means of life (capital). It has direct influence on all non-capitalistic institutions, such as a university, which is not capitalistic. If education had to be attained through the market process there wouldn't be any.

The literature on capitalism is very confused. It speaks of things that are peculiar to capitalism that aren't.

Suggested readings:

*The Encyclopedia of the Social Sciences*, for: Capitalism, Competition, Declaration of Independence, Due process of law, Individualism, Bargaining power, Judicial review, *Laissez-faire*, Natural law, Natural rights, Property, Vested interests.

Strachey, John, *The Coming Struggle for Power*, Ch. I and II.

Hammond, Mr. and Mrs. *The Rise of Modern Industry*, Ch. XII-XV.

C. E. Ayres, *The Problem of Economic Order*, Ch. II.

Max Weber, *The Protestant Ethic in the Spirit of Capitalism*, Ch. II, IV, V.

Tawney, *Religion and the Rise of Capitalism*, Ch. II, IV, V.

Becker, *The Declaration of Independence*, Ch. I, II, VI.

Public Affairs Pamphlet No. 7 . *The Supreme Court and Distribution*.

Beard, *An Economic Interpretation of the Constitution of the U.S.*, Ch. III, VI, XI.

Commons, *Legal Foundations of Capitalism*, Ch. VII, VIII, IX.

Thurmon, Arnold, *The Folklore of Capitalism*, Ch. I, V, VIII-XII incl.

Lewis Corey, 1). The Decline of American Capitalism, 2. The Crisis of the Middle Class, 3. The Parting of the Ways, or America Must Choose, or something like that.

Berle and Means, *The Modern Corporation and Private Property*.

Laski, *The Rise of Liberalism*.

Veblen, *The Theory of Business Enterprise*, Ch. I, IV, VI, VIII-X.

Max Lerner, *The Nation*, about 1936, "The Riddle of the Supreme Court."

Weber, Alfred (?), *In Defense of Capitalism*.

3-31:

The reason that there cannot be a pure ismatic economy involves the theory of history. The aspect of the economy that gives us trouble is the institutional aspect. The life of the economy has two readily identifiable categories;

1. The technological

Physical engineers, not economists, are specifically concerned with problems in this area.

2. The institutional

This aspect has to do with persons and with people. It is as important as the technological. The economic process cannot go on without correlated human behavior. It is about this aspect that we get excited and fight wars. And it is with institutional problems that economics is concerned. Isms are institutional factors.

They are also systems of validation of these same patterns; they are disclosures of what ought to be. Every institution performs two kinds of functions:

1). The provision of the means of life. (Instrumental.)

2). Arranging people in some kind of power system, power being used to mean discretion over other persons' behavior. (Ceremonial.) (Freedom means discretion over your own behavior.)

All institutions perform both of these functions. It is the latter about which we get excited. We don't understand it very well. It has kept us from solving our problems. Institutions have nothing to do with physical things, but only with relations between persons, e.g., private property. Ownership of land does not change the character of the land, but it does affect human relationships.

Capital is also an institution. (Karl Marx named capital.) Capital isn't machinery; the Russians also have machinery. We have a tendency to use the word capital to mean both physical goods and an institution. The literature on this matter is very confused. We say you have to have capital to produce, meaning physical goods. That's true. Then we say you have to have saving to have capital, meaning relationships. That's not true about capital meaning physical goods. But is this true? Don't shift from physical tools to the relationships when you talk about capital. Determine whether you are talking about the instrumental or the ceremonial function of capital. We got the institutional all mixed up with the physical aspect.

Economic problems are resolvable only in terms of the instrumental, and resolution requires that we effectively correlate the institutional with the technological.

Because of this fact all economies are mixed.

We thought we had technological unemployment. We blamed unemployment on tractors. When we wanted to raise income in the thirties we destroyed physical goods. That was the only way we knew to solve the problem. We were forced to admit that we were hungry because we had too much food. Farmers didn't have enough income. What is income—stuff or money? We thought it was money.

Another example of confusion between these two functions.

The only way to solve economic problems is to make adjustments in institutions.

Choices in the field of technology are clear: we choose the most efficient way. In institutions we don't do that because we confuse the two functions.

The isms are patterns of institutions. Our predominant ism is capitalism. We and the Russians can't solve our problems because we refuse to make the necessary

institutional adjustments. Solving a problem means doing something physical through institutions.

Revolutions are never successful. You can't destroy an institutional structure and start over again. You can't carry on the economic process without institutions. For this reason we sometimes think that technology and institutions are the same thing.

#### 4-1: Capitalism

Things that are not peculiar to capitalism:

1. Machine technology. Capitalism is not machine technology, although it is frequently so presented. All isms involve machine technology.
2. The accumulation of capital goods. Capitalism is not that.
3. Mass production.
4. The getting and the spending of money.
5. Selling what one produces.

Identification of capitalism.

1. Private property is usually listed. It is not peculiar to capitalism unless you get down to what the term private property actually means. In its generic meaning, fascism and communism also have it. What is private property? It is an institution. What identifies it? What is common between the ownership of a toothbrush and a railroad?

You can own both, but you have no discretion over the use of the latter. What is in common is that you have a right to acquire title to the returns from the use of it and nobody else can get the returns. This gets very close to capital. Property isn't necessarily material. It may be a leasehold or a patent or a debt or a contract or a franchise. The federal reserve banks are owned by the member banks. They are private property. But the banks cannot use the returns from the federal reserve banks even though they have title to it. Thus it is seen that private property has very narrow rights peculiar to it. Almost every item has a different bundle of rights constituting ownership. The only right peculiar to private property is coming into possession of (gaining title to) the return from it. You can have private property in other ismatic systems than capitalism, but you can have other isms without it and you can't have capitalism without it. Fascism does not require private ownership; capitalism does require it. Without private property it wouldn't be capitalism.

2. The processes of production and distribution are controlled by owner. (This is clumsily said but we have no other way to say it. Government ownership is not the same institution as private ownership, but the word ownership has to suffice for both.

Government is an institution set up by members of the community to carry on the political process. But government property or ownership does not necessarily mean that the government can gain a return through what it owns; it is often against the law. In private ownership, you can gain a return. In government ownership, entrepreneurial decisions are made by the government, whether the government is a dictator or the people.

3. The profit motive is peculiar to capitalism. We accept it as the specific motive: get as much as you can for as little as you can. However, it is very difficult to

identify profits, because they are zero in the aggregate. Thus, even there are no profits, the profit motive is essential to capitalism.

4. Buying and selling is the only means accountably recognized as contributing to the economic process. That is to say, the central economic structure is the market. For example, to determine income we add up sales. Buying and selling is the accountancy; we have no other way of accounting it. Keynes does make some effort at getting at income by other than sales (A-U), but what he subtracts from sales is what goods could have been sold for.

5. Concept of natural order (with reservations).

Qualification: All other isms conceive that “you have to make it that way.” They speak of natural meaning proper, not automatic. In capitalism, that which is natural is what would exist if you didn’t do anything about it. The theory is that capitalism would exist if you didn’t do anything about it. The other isms are sort of God’s naturalness; capitalism is nature’s naturalism: it’s just that way, without enforcement by man or God.

4-4:

Property is a vested interest, recognized by law and enforceable by the community. A laborer’s job is in some sense his private property. A serf’s “job” is not his property; therein lies the distinction between the serf and the modern laborer. A serf’s job was a sort of permanent contract; he could not quit it. A laborer can quit his job but he cannot sell it. It is thus a vested interest but not exactly private property.

Loucks’ [author of text] position is that voluntary savings used in the formation of capital is a requisite to capitalism. This is a rather difficult position. A theory that there are no voluntary savings would require holding that there is no capital formation and no capitalism, to be consistent in the above position.

Remember the distinction between systems and isms.

Continuation of characteristics of capitalism:

We use the caption private property to cover a great many institutions. In Adam

Smith private property was about the same as capital. Now this is not true.

Another positive peculiarity of capitalism is the profit motive. What causes men to act so as to provide the means of life and experience is the profit motive. It pervades the community’s behavior in a quite definite fashion. The profit motive is not peculiar to any other economy than a capitalistic one.

What is profit? Return from the use of capital. Interest is payment for the use of funds. Interest is cost; profits are paid after the costs of the factors are paid.

Is the University of Denver a capitalistic institution? It is privately owned. Who owns it? The Board of Trustees doesn’t, nor does the government. If there is no profit, what’s the difference who owns it? Nobody owns it. The institution of ownership is not universal; it is not essential that someone or even an institution own everything. The University of Denver isn’t socialistic. It isn’t an ism. We have developed ways of providing the means of life and experience other than the isms. If we relied only on the isms, we wouldn’t have a university. Universities never pay for themselves.

In most enterprises we act as if the motive were the profit motive, and in many (perhaps most) there is an attempt to make a profit. Constantly we ask ourselves, “Can we afford it?” Economics discloses that anything technologically feasible is financially possible. The question “Where Is the Money Coming From?” is

pertinent to individuals but not to the community. The idea that we can't have a high income because we can't afford it is nonsense. We pay for things by making them. We can afford anything as a community. Making things creates income; that's what income is.

Business did not know how to make war goods without profit. That's the way it works.

We act as if fighting a war were a matter of profits, because we don't know any other way to do it. It bothers us a little.

The profit motive permeates institutions where there is no reason for a profit. We sort of apologize because the post office doesn't make a profit.

4-5:

In a capitalistic economy we compute income as receipts from sales plus what receipts would have been from goods and services produced by not sold.

A common position taken is that which holds that big business is destroying capitalism because it is destroying competition. There is an insistence that you must have competition to have capitalism. Destroying competition destroys institutions essential to capitalism because competition forces owners to engage in maximal production for the community. By deciding to maximize his income he automatically decides on the greatest production of which he is capable. The classical theorists (and the classical theory is the theory of capitalism) point out that anything that destroys competition destroys the validity of capitalism. Anything that interferes with competition is bad. (From Smith to von Mises.) The joint-stock company (corporation) was not capitalistic, according to Smith; he placed it in the same section as government enterprise. The basing-point controversy: the Supreme Court held that its function was to enforce competition whether entrepreneurs liked it or not, to preserve capitalism. Collaboration in restraint of trade is illegal.

That has given us a lot of trouble. Berle and Means have this idea in mind: that big business is contrary to capitalism.

Monopoly is established for the purpose of cutting production, in order to make money. Obstruction of a new technique is an obstacle to progress.

4-6:

The only way you can pay a debt is for someone else to create another one. The entrepreneur's income is called profits. Profits are zero in the aggregate.. Some firms make a profit and others a loss. There are two forms of loss, bankruptcy and debt.

Competition is used in two different senses:

1. In the classical sense, it is that situation in which there are so many sellers that no one of them can affect price. For this kind of competition there is no verb.
2. In the other sense, it means a struggle for the market. For it, we have the verb "compete."

But a struggle for the market is thought to result in the beneficent effects of competition in the classical sense.

R.H. Montgomery thinks that in the second sense of competition price is driven not to average cost but to incremental cost. Then profits are less than zero. He may

be right. But this situation requires homogeneity of product and conditions, and this is almost impossible of achievement.

Competition is in fact that which permits capitalism to perform its function—that of providing the means of life better than any other ism. This is the classical position. And competition is very difficult to achieve.

Then along comes Keynes with a different theory. Income is determined by propensity to consume and inducement to invest. The latter comes from the relation between the rate of interest and the marginal efficiency of capital. And competition reduces the m.e.c. Thus it seems that competition lessens the wealth of the nation. So some are again beginning to call economics the dismal science. You have to be poor to provide the means of life, it appears.

The fact is that there is some struggle for the market almost everywhere, even among monopolists. They are competing for a larger share of the consumer dollar. That kind of struggle has the same effect as that of competition as conceived by the classicists: it forces prices down.

Competitive firms don't cut production in times of depression. Monopolies may cut 100%. And prices in the first instance go 'way down and in the second instance vary hardly at all. Thus competition seems to be a benefit to everybody except the farmer.

But the analysis lauding competition doesn't seem to solve our problems. What does determine competition? You can't have competition in telephones in Denver, because of the technology involved. Then how about monopolistic competition? Two firms, for example. It won't necessarily work. The only way you can sell more is to sell it for less, and you defeat your purpose of earning income. You can't have enough firms in those enterprises in which a few optimal firms can supply the market. The optimum size of plant in technological terms determines whether you'll have competition, monopolistic competition, or monopoly.

When enterprises are operating under conditions of decreasing costs and are struggling for the market, prices are driven to below cost. Railroads are an example, so we regulate price. We don't let them compete. But we talk as if we love competition. If competition is allowed in the case of railroads, monopoly results.

Does or does not competition destroy the wealth of the community?

4-7:

Dilemma: Competition doesn't exist except in very small areas, yet it is held by many to be essential to the existence of capitalism. These men say that capitalism does exist. What's wrong? Thomas Jefferson thought that every man should have justice whether he had any income or not. But we treat justice as a commodity, something that you can buy.

#### FASCISM

There are two kinds of concepts of fascism, the most common of which is that it is a sort of further development of capitalism. (Marxists hold this; many of the classicists sort of too.) The more liberal classicists hold that it is a different kind of thing than capitalism—a lower middle class revolution. The class that Marx thought would disappear—the petty bourgeoisie—continued to increase as a proportion of the population. It has risen in large numbers primarily as a result of

the institutional device we call the corporation. The owners are not responsible under this structure, nor are their assigned representatives, the managers. The corporation is responsible; it is a legal person. It has had a peculiar relationship to the development of the lower middle class, the petty bourgeoisie—the holders of securities, etc. Their interests as an economic group are bound up with the maintenance of the corporation, they think. This class grabbed political power when it appeared that things might break up, and thus gained control of the economic process, and thus made capitalism work when it would have failed otherwise. This notion prevailed in much of Europe as the explanation of the origin of fascism. Big men as well as petty bourgeoisie supported it because they had to. These are the prevailing notions of the explanation of fascism. They do not stand up under rational observation.

Communication falls down when you lose faith.

The idea of fascism gives students a lot of trouble because it is irrational theory. It doesn't even claim rationality. "Action precedes theory." Action is good; sense is not.

Another difficulty with fascist theory is that it is very scant. They feel no inclination to explain things. They deny the validity of explanations. But they can't avoid explanation, so they do explain. And you can't avoid the application of theory.

The fascists had purpose, and screamed it to the world.

Fascism appeals directly to emotion and prejudice, and intentionally so, defying anyone to distinguish between bias and reason (or science). You answer questions by authority (force), not by reason. But authority defies divine right, using instead the fact of accomplishment. The demonstration of the fact of power is a complete demonstration of the capacity to exercise power. Result of action, not of reason. Thus the great man theory of history (developed by Nietzsche): that history is the result of actions by men in power. Combine with this a theory of the state which is not "class" theory, but a theory of the state as such, more nearly akin to the Roman concept than to the modern capitalistic conception. (Glimpses of Machiavelli and Sorel.) Rejects democracy not only as undesirable but as impossible, because of the lack of ability of the average person: he has not demonstrated his ability to attain power. Democracy is government by the least able as demonstrated by action. Many democrats have been convinced by the same theory, but they think democracy is worth it anyhow.

Of course the validity of democracy stands on the fact that it is the most efficient means of solving problems. But fascists don't mean the same thing by solving problems. Authoritarian theory of validation: things can be made true by an appeal to authority, the exercise of power. They solve problems by simply stating an answer. Kings have always had the same notion. Kings can do no wrong, nor can dictators. They have demonstrated rightness by attaining power. They get down to the fundamental datum in human nature, the thirst for power. Not altogether different from prestige drawn from Veblen, nor from the modern anthropologist's notion of prestige. He has demonstrated that which emanates from the fundamental motive of human nature, the thirst for power.

The corporation is not essential to fascism. It has been the way fascism developed, according to most literature on the matter. But that concept is wrong.

Fascism is anti-rational and thus particularly troublesome. How can you base a theory upon a denial of theory? It holds together, however, in that action takes place on the basis of it. It has influenced behavior. Its repudiation of rational theory does not disallow specification in the theoretical sense.

A theory of history that is a concomitant of fascist theory is the great man theory of history. Might makes right. Authority is that to which one appeals for validation. Almost becomes "What is, is." The actual exercise of power "is." What determines human behavior is the exercise of power, they say. Whoever exercises power has in fact accomplished it. (Use of rationality to prove non-rationality.) Democracy is of course the silliest way to go about determining policies. Democracy is inefficient at solving problems. Therefore it cannot survive.

Literature going with this: Carlyle, Nietzsche, etc. Democracy is the rule of stupidity. Fascism is the rule of great men. Power begets power: the position of power is to get power, no matter what you say. Only fascism can result. That's what wrong with government by the elite; the fascists say that's what's right about government by the elite.

Democratic peoples have learned that you can't have a government of experts. They are good hired hands but not good governors. College professors always think they should run the government, but the people won't listen to them. When a professor gets in power, he has two problems: (1) problems to solve in the economic sense, (2) problems of maintaining power. If you're in power you have to act in terms of maintaining power. That's why you have to watch the structure of the institutions—set them up so that authority can be maintained only by following the will of the people. That is the only answer, and it is the theory of democracy. If you're a legislator, you determine policy. To be re-elected, you have to do as the people want. You can't depend upon the man in power; you have to set up institutions so that to stay in power you have to proceed according to the judgment of the community.

Distinction between fascism and democracy: under the authoritarian theory, the concept of a solution to a problem is different from under the democratic theory. Truth is a matter of authority; the dictator can make things true by declaring them true. When problems arise, he "solves" them by declaring them solved. Problems are in the minds of people. The trouble is that problems aren't in the minds of people; they're not determined by what people think of them; they're not figments of the imagination (goblins). Resolution involves relations between order and the problematic situation. There is order in a graveyard. Order and problem-solving are closely related, but they're not synonymous. Fascists remove articulate evidences that a problem exists. They keep order, but they don't remove the problem.

Examples of U.S. and Germany both trying to build war machines. She got a head start and had more materials under the command of Hitler. He said, "Let there be 40,000 airplanes per year." The president of the U.S. said, "We've got have 50,000 airplanes per year." By 1941 we had produced about 20,000 planes in our entire history. It was pronounced impossible in our state, but the possibility was admitted if we were fascistic. We started producing 100,000 planes a year. We made a lot



of noise, we didn't have order, but we solved the problem. We whipped Hitler with airplanes. He had twice as many people as we, and "discretion" over all of them. But he didn't get the planes. His claim of solving the problem was not valid. He didn't solve the problem; we did.

Authority is still a potent weapon. We pay deference to it. The theory of the state, as well as the theory of history, is a necessary concomitant of this kind of validation.

4-11:

The attainment of power is a fundamental motivation and a natural function in human behavior—a fascistic idea. This is not altogether different from Veblen's notion of prestige.

Fascists begin with the dictum that all men are created unequal, in contrast with Jefferson's that all men are created equal. Both are unquestionably true. Further examination reveals that they are not talking about the same thing. The distinction grows out of Veblen's distinction between technology and institutions. It is true that all persons are different; they are not equal. Variations in any one attribute are quite great, such as in length of noses. People vary. Some learn more rapidly than other, usually in some areas more than in others. The fascist imputes to those differences another kind of difference, that of which Jefferson was speaking when he said that all men are created equal. The word "invidious" might be used to describe the idea. (There is a lot of reasonableness tied up in the idea of sportsmanship, but the fascist idea does not recognize the validity of reason.) The fascists made invidious distinctions; that's what they're talking about. Men are unequal because the power hierarchy says so. Invidious distinctions are set up. Jefferson says this is nonsense. The actual differences among men form no basis for the invidious differences. Paine agreed with Jefferson: man can have no property in man. Fascists say that since power is the end and some attain power while others do not, men are unequal. They get a nice harmony, as do the classicists, between what ought to be and what is, regardless of the rules of the game. The plea is, ultimately, why not now, like the communists. Better facilitate what will happen anyhow. (Economic power is not an end in itself; it is a means to power. The fascists and the communists use it. In capitalistic theory, economic power is power. Those who control the money are thought of as having political control too, sort of naturally. Real power is thought of as economic power. That kind of thinking was pretty well set in Germany at the time of its collapse, a la Menger. Faced with a dilemma, political leaders said, okay, we'll keep you capitalists in power. Hitler wasn't thinking that. He said, sure, you can have the money, what do I care? The Krupps, etc., weren't worried, and neither were the Americans. The business leaders had the money, so Hitler was harmless. But Hitler knew better all the time. He had an economist named Dr. Schacht, and they weren't in view of the Menger/BoehnBawerk/vonMises, etc. theory. They wanted power as such. They made all the big business leaders monopolists, and if Hitler didn't like what a businessman did, he shot him. Hitler had the power. The theory held by the capitalists exploded. Germany bewildered many economists. She even sought an unfavorable balance of trade, and she rearmed with it. She didn't have any money, but she bought and sold things all over the world.

The same distinction permitted Veblen to predict in The Nature of Peace that Germany and Japan would have to go to war and why.

Most men have almost always sought power, but the theory that it is “natural” is pure imputation. The exercise of power is a cultural emanation of a much more fundamental characteristic of man. Power is associated with honor, prestige, etc., and is permitted because of a lack of understanding and rationality. If you can’t understand something, the only solution is force. That is the only answer to enforcement of a non-evidential solution. Our history shows that that is the only answer we have had much of the time. Our ignorance has forced us to be unreasonable and authoritarian. Mathematicians don’t use force; they use evidence. In some areas we’re still using the former rather than the latter. The historical struggle for power is the cultural result of ignorance. Power is the only way to stop the use of clearly irrational theory. (The belief that the king can do no wrong can result in war, and often has.) Fascist thinking does not inevitably lead to war, but given our cultural heritage, it does lead to war, because that’s the only way we know how to do it. Fascist education is pure and simple propaganda. (Education equals propaganda.) In valid theory, education is an effort to look at evidence. In the U.S. we can inquire, find the evidences, and present them, with tolerable efficiency (absence of interference). In Russia, they try to prove dicta specified by the authority in power. In pre-war Germany, likewise. All the scientists knew better, but science is invalid. The fascists and communists differ in almost every respect from each other. They developed an elite, a state conceived as a spiritual, ethical entity beyond the persons who make it up. The state is power, preserved by the elite who have demonstrated their ability by the attainment of power. There is one who is most elite, the dictator. He has absolute power. The fascist says, “My theory is that all theory is nonsense.” That makes sense to him. Then he enforces whatever views he happens to choose—the dictator does, that is. He solves problems authoritatively. Nietzsche: “Nothing is really right or wrong; only thinking makes it so.” Thus the importance of propaganda. It’s very simple. Fascism necessarily follows from this kind of thinking—good and bad have no substance in fact, aside from thinking about good and bad. But they are wrong. Good and bad, right and wrong, are a question of fact, not of authority. Problems have existence in fact. The existence of a problematic situation cannot be avoided. History teaches that, if it teaches anything. Men have been trying to solve problems by the application of force for thousands of years, but a problem has never been solved by force. (Only imaginary problems have.) Apparent contradiction: sometimes you have to use force in order to have a chance to solve problems. But it is still the understanding of the problem that solves it, not the use of force. Example: wars are won by technology, not by force, but force results from technology. Atoms don’t pay any attention to authority. Human problems are the same way. The difference is that you can convince humans that the existence of a problematic situation is good for them, e.g., that hunger is good for the soul. But it doesn’t solve problems.

4-12

Readings for Utopian Socialism:

Fourier

Robert Owen, *A New View of Society*.

*Encyclopedia of the Social Sciences*

Selections from the works of Fourier

Ely, *French and German Socialism*, Ch. 5.

Gide and Rist, *History of Economic Doctrines*, pp. 245-55.

Laidler, *The History of Socialist Thought*, pp. 64-73, 123-133.

Gide and Rist, pp. 231-44.

G.D.H. Cole, *Robert Owen*.

Engels, *Socialism, Utopian and Scientific*, pp. 47-76.

Skelton, O.D., *Socialism, A Critical Analysis*, Ch. IV.

Strachey, John, *The Theory and Practice of Socialism*, Ch. 23 and 24.

Pigou, A.C., *Socialism versus Capitalism*.

The word "relativity" has often bogged down students of the social sciences. We got it from Einsteinian physics, which is constant, not relative. If you can't have a constant, you can't have science. Relativity is a misnomer. The idea of relativity is the realization that everything else adjusts accordingly—in Einstein everything adjusts around energy, in terms of energy. But we tend to use the word incorrectly. In Newtonian physics it is purely relative; there are no constants. Each thing is defined relative to something else, and we get a circle. And it's true, as it's stated. But its universe is much smaller than that of Einsteinian physics.

Good and bad in a sense are relative. But they're not two different aspects of the same attribute, they're different attributes.

If a question is not a question of fact, it is not a question. Dewey makes it clear that it just doesn't make sense. A question as to which ism is best is nonsense. A legitimate question, which sounds something like it, is as to whether it is better for people to believe one ism than others. That is a question of fact. A question of opinion is a question of fact. Theory is fact. Correctness of theory is another problem.

Most of our difficulty comes from our consideration of ideas. When we're talking about the behavior of human beings, we're talking about facts. When we're talking about ideas, we can talk about the idea as an idea, or the fact that the idea represents. We shift from one to the other without knowing it. Look to your tools when you start to handle a problem. Fashion your tools with a rational approach.

We associate scientific validity very easily with persons, just as we associate authority with persons. You don't learn to be scientific, period; you learn about specific problems. Knowledge of one sort does not transfer to another problem. You have to learn about the facts of the problem at hand. That fallacy in our thinking comes up in our idea about technocracy—letting the engineers solve our social problems.

Science is a matter of arranging facts in causal terms, in line with a theoretical formulation, which is a theory of value, a criterion of judgment. You can't disregard the value problem and make any kind of analysis, in any field, math included.

Philosophical principles are like mathematical principles in that they're either true or they aren't.

Some of the institutionalists have taken a naïve reaction to that sort of thing. They seem to get out of Veblen the idea that all this stuff is nonsense, so you don't need

to fool with it. That's not true. Mythology determines why we wear neckties and why we kill each other. It's important.

4-13:

It is palpable nonsense to insist that two opposing ideologies cannot exist side by side in the world without war. We have always had opposing ideologies in the world, and they can exist for centuries without war.

Compared with Jefferson, Stalin is an arch conservative. Jefferson really believed that democracy will work. Such a position is unusual, and it gets people all excited.

The Russians have been trying their level best ever since the Revolution to get communism, and they can't. Why we should be so afraid of it is a mystery. In fact, we aren't afraid of communism; we're just confused. The only way we can win the cold war is by democracy; that is, with ideas, not guns. The Atlantic Pact won't win it. Democracy can. We've got the winning hand, but we're afraid to play it. We're trying to win the cold war with hot instruments (the Atlantic Pact).

Utopian Socialism:

Utopia has come to mean a situation in which all problems have been solved, and therefore one which is unattainable. They (the Utopian socialists) didn't think it unattainable, but were called Utopian by those who objected to their doctrine. Many of their concepts have entered importantly into proletarian radicalism of the twentieth century. The Utopian socialists were a product of the age of reason, having that concept of human nature. The age of reason was right in saying that men really are distinguished from other species. Man has a peculiar nature; it is an identifiable function of rational capacity. Man has really got it. He can learn vicariously. He is a theory-creating, theory-applying animal. He can conceptually project (teach) what he knows. No other animal can do that; the other animals have to experience something to learn. We got mixed up in our educational philosophy in this area, when we started saying you have to experience something to learn. That just isn't true; if it were we'd be as dumb as dumb animals. Man has capacity to reason. Social theory is based on that.

Fourier had some ideas on that score. Validity is attained by conforming with the intentions of nature, in human affairs with human nature. Happiness is attained when we get congruity between human behavior and human nature. Social order is founded on natural laws. The discretion of human should be exercised to attain this congruity. (This is nonsense, but it gets some right answers.)

The classicists were looking at the continuing factors in human behavior to get at human nature and thus arrive at basic assumptions on which they based their deductions.

Fourier looked at this and said that man is by nature perfect. Get his actual behavior into conformity with his natural behavior. Let him act according to his instincts. Institutions prevent this.

Fourier and his colleagues were right in looking at the continuing and inclusive factors.

It is difficult to determine whether Fourier was an anarchist or a socialist. Sort of both, as were the classicists. Adam Smith had two basic motives, self-interest and

sympathy (good will). The first is primary, but the other had to be invented to explain actual behavior.

Fourier had twelve of these attributes, in groups identified in terms of their effect on social behavior: (These attributes are instincts.)

- A. First group: has the effect of disrupting social behavior, keeping men apart, lessening their efficiency, keeping them from cooperating.
  - 1. Ambition, 2. Rivalry, 3. Vanity.
- B. Second group: tends to bring people together, to correlate, to carry on the social process.
  - 1. Friendship, 2. Sex, love, 3. Parental instinct, 4. Desire for harmony
- C. Third group: the five senses
  - 1. Sight, 2. Smell, 3. Taste, 4. Hearing, 5.. Touch

They were confused about instinct, as we still are, Fourier probably less confused about it than our modern psychologists. (Sight can probably better be identified as an instinct than can pugnacity, for example. It is more outside the area of discretion.) Most persons tend to mean as instinct things like pugnacity, love, hatred, anger.

4-14:

Why shouldn't we establish democracy in Germany? And are we or are we not attempting to? We haven't set up anything yet; they still have a military government. We don't know yet exactly what we want to set up. Maybe we should know, but we don't. There is a problem. The Germans are politically the most immature in Europe.

The Utopian Socialists were writing around the early part of the nineteenth century. Their system of validation: congruency with nature—characteristic of the thinking of that time.

Fourier listed instincts as causing people to act in certain ways. The next step he took was to rearrange the institutions so that these basic factors in human behavior could operate without interference. He had the notion that, this accomplished, the human capacity to reason would become useless. All social problems would be resolved, and man could apply himself to areas of technology and esthetics. No institutional problems, but not a stoppage of progress. (Quite like Marx in this respect. Different in theory—he wouldn't change it, he would just look at it a little differently, and it would work. But Utopian Socialism rejected firmly the classical general theory.)

Fourier's chief objection was the inefficiency of the economic process. He noted people going hungry in Paris with thousands of tons of food being garbaged because it couldn't be sold for a profit. He said eating was a natural process, and the institutions interfered. Most of this, and all similar situations, occurs because of the interference with the free exercise of human behavior. You have to cooperate with Nature. On the surface that seems reasonable to most of us, but if we look more carefully we find that's not what we want to do. We want to thwart the intentions of Nature—kill weeds and make dams, etc. But that's not what Fourier thought. Somewhat like Rousseau in the idea of institutions.

Fourier was not concerned necessarily with inequality of income, because some of it might be in conformity with the basic instincts. He would not destroy private property. Product would go instead as follows:

One-third to labor, One-fourth to management, Five-twelfths to property owners (/) But not all income was to be so distributed. Every person would receive a minimum, established by determining what he needed. What was left over would be distributed as indicated. Each individual could work any amount, with anyone. The phalanx would allow for the propensity toward rivalry. Forty or fifty groups, identified according to groups, such as carpenters. They would strive to outdistance each other, so that a carpenter could invidiously compare himself with a farmer, etc. An outlet for dispersive passions, variety, etc.

Then how would you get people to work? Three answers:

1. Determination of how much a man would get over the minimum would be in part at least a function of how hard he worked, a connection between reward and effort. He thought that work was in some sense painful.
2. He would make work play. It is painful not because of the kind of activity but because of the opprobrium to it. Don't call fishing work, and it's play. If you don't make it the wage system, the source of the dishonor is removed. Make it competitive play.
3. No regulations at all. Everything completely free. No wages. No coercion.

Now, is all labor of that kind? No, some is not fun, regardless of the institutional arrangements. Leave this "dirty" work to the children, in the form of apprenticeships. matter of discipline. (He was wrong.) He backed down a little about the matter of honor and dishonor. Cleaning sewers and sweeping chimneys couldn't be made honorable or fun exactly, so let the children do it. They wouldn't mind it as much, anyhow. Thus the stigma would be removed, and men will be eager to work. (Some truth here, as Veblen pointed out.) Brisbane expounded Fourier's idea in the U.S. He wrote *Social Destiny of Man*, which had considerable effect. Converted Horace Greeley to the idea. They succeeded in setting up about forty phalanxes in the U.S., the most important of which was Brooks Farm. Sylvania was another prominent one. The most successful one, the North American Phalanx, 1834-1854, didn't have as much capital (one-fifth) as Fourier thought necessary to set one up. Also only about one-sixth of the necessary population. A lot of problems arose from the peculiar situations that they encountered in the phalanx experience. The experiment failed, and the proponents always attributed this failure to lack of capital, population, etc. (Incidentally, most of the phalanxes were made up of a bunch of "characters" who didn't know how to act correlatedly.) By definition there could be no anti-social behavior and thus no problems, but there were. Men fought, etc. But there could be no reason for men fighting over a woman, e.g. The rivalry was supposed to be taken care of by the team arrangement. It wasn't. But of course these could be blamed on the surrounding communities. Such men just hadn't learned; they were acting like children.

No courts were needed. Everyone decided everything. Four thousand to six thousand was the proper outside limit on population: what Fourier thought it would take to operate an economy. Perhaps true when he was a boy, but when he was writing it took more than to have sufficient division of labor. So came the idea that

there should be less division of labor—man should be well-rounded, able to do a lot of things.

There are still several Utopian Socialist colonies in the U.S. and Canada, but not Fourier colonies. There are several Owenite ones. The Utopian Socialist colonies do not have religion mixed up with them—Age of Reason instead. But most modern ones similar to them have a religious basis.

How do you go about setting up this system? Set up the phalanxes as examples to show the world how things could be organized. When men saw them, being rational, they would become aware that everyone was happy with little effort and rush to do the same thing. You could hurry this revolution through propaganda.

Not a class struggle, but tell people, in an effort to get them to see the light.

Ignorance is the real obstruction to attainment of the natural order.

#### 4-18: Robert Owen

Concept of human nature different from that of Fourier. Owen thought of it as the “clay-tablet” concept. Experience writes character and personality; the person is like a soft clay tablet. Humans are essentially rational; what is wrong is the institutions. It does not mean that you are not born with specific propensities, regardless of the effect of institutions. Not natural propensities, rather no propensities. Man is naturally reasonable and learns such things as rivalry, etc. Fourier’s man was not quite as reasonable as Owen’s.

Owen was an apprentice at an early age. He early started inventing mechanical contrivances. He went into business at nineteen and did extremely well. At twenty-three he went into the textile business and established a plant considered the most nearly perfect model in the world. In 1813 he wrote “A New View of Society,” setting down notions that we now would call benevolent capitalism or something like that. He thought employers should think of their employees as people. He did several astonishing things at New Lanark: He did away with child labor (those under ten), abolished the pauper apprentice system, reduced the working day to ten hours. These actions were presumably raising his costs, and yet he made the greatest fortune in Britain, the first to make a huge fortune out of the Industrial Revolution. He was a most successful businessman, despite his “unbusinesslike” methods. He sought to install a functional educational institution, in which he tried to instill habits of cooperation rather than of competition. He began to envision a whole world fashioned after New Lanark, but he didn’t get many supporters among the businessmen. His success didn’t make sense to them. His principles weren’t right.

In 1819 the Factory Reform Act was passed, advocated by Owen. He had considerable influence because of his success as a businessman.

As he continued to observe, Owen decided that philanthropic capitalism wouldn’t work, and he became a socialist. People would not follow his New Lanark experience. The institutional structure of society would have to be reorganized. So he organized some new villages as plans for society at large. He was doing well. The community was frightened. They couldn’t attack him as unacquainted, because he was such a successful businessman. But he made a mistake along here somewhere when he attacked religion (denounced it and sin). That gave the community a chance to attack him on the basis of his agnosticism. He thereafter

lost respectability; his enemies were able to dissuade “nice” people from listening to him.

Owen got fed up and came to the U.S. in 1824. He bought New Harmony, in Indiana, to install a village of cooperation. He sank his whole fortune in it, and it broke him and failed in three years. Frances Wright became involved in it, however, and decided to try to buy freedom for the slaves. She didn’t have enough money to do it all herself, and others didn’t respond very well, so she failed. She was also among the first woman suffragists. . She made some headway. Josiah Warren, the first American anarchist, was also a member of New Harmony.

Owen went back to England, with no fortune, and decided to establish co-ops. He began to study economics seriously and made the discovery that money is sterile. (Like Aristotle’s discovery.) He also discovered the labor theory of valuation—from the literature. Then it hit him that money is just a way of working out the real value (which is comparative labor content), so you should distribute more of it. So he set up his co-op on the idea that each man would be paid according to the amount of his labor. Then there would be no depression—taking off in part from Lauderdale’s theory of depression. But members used the co-ops to dispose of good they couldn’t sell in the regular market, and sold regular goods in the regular market. Ratios of exchange grew up between these “labor chits” and money from the open market. Operations grew up that caused the co-ops to fail.

Owen had tried four things—and failed every time. He still stuck to his basic theory. He decided to try one more thing—trade unions. He organized working men not as a bargaining agency but as a means of achieving socialism. He was a great organizer. The first thing they did was bargain for higher wages, and Owen tried to show them that this wasn’t what organization was for. Some even went so far as to strike, which was directly opposed to Owen’s philosophy. He had failed again. He recognized that there was something wrong with the economic theory he was applying. His theory was something like this:

1. All value comes from labor.
2. Labor receives only a part of the money value that it creates.
3. Therefore it is impossible to recover the goods from the market.
4. Therefore the defect lies in the money system, because there is no correspondence  
between money (founded on gold) and money’s worth (founded on labor.)
5. If workers received the money’s worth of what they produced, all goods could be sold.

4-19:

We like repetition, but if it excludes other behavior, it’s monotonous. Doing nothing is monotonous, but doing nothing isn’t monotonous in itself.

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Shortcomings and contributions of the Utopians:

A. Shortcomings

1. Overlooking the degree of interdependence of the economic world.
2. Overlooking the fact that people believe in class interests, even though they correctly point out the harmony of interests in fact. They fail to understand the significance and function of habits of thought and action.



3. Assuming that people will do what they understand without understanding its relationship to all the rest of their experience.
4. The notion that reason is the driving force in history. (This is usually listed as a shortcoming of the Utopians; Fourier would agree with the Utopians on this.)
5. The failure to think of ways and means of arriving at the Utopia. They had a theory of revolution that you stop and start over.
6. The notion that institutional change must have an institutional structure in view as the end. (Most authors say it this way, which is erroneous: that Utopians make the mistake of thinking that institutional change occurs only by evolution or revolution. These authors would say that change comes about some other way.)
7. Rigid forms and perfect plans.
8. It's fantastic. (But whether it is or not, it's important because people believe in it.)

#### B. Contributions

1. A sense of the possibility of social progress. A revolt against the dismal science.
2. They were effective critics of the society in which they lived. Reminded the community that the community might be wrong.
3. They also kept before the community the idea that institutions influence in a very important way the behavior of individuals.
4. They emphasized the fact that institutions are man-made. They even made a large part of the community conscious of that.
5. They made a distinction between personal and social problems and well-being. They made the wrong distinctions, but they brought to the attention of the community that there are such distinctions.
6. They understood the potentialities in technological development and its service to human beings.
7. They set human well-being and, in some sense or other, happiness, as their goal. They denied contravention of human happiness by divine decree.
8. They put emphasis (constant harping) on the matter of the inequality of income as the source of our economic difficulties.
9. They showed the necessary relationship between education and economic welfare. With the possible exception of Adam Smith, that was not so clear to either predecessors or successors. Utopians held to the idea of education as free inquiry. The idea of social and economic progress is a very important matter. Almost all other theories have had the idea that there cannot be any such thing.

4-22:

#### Marxism

They are not so different from the Utopians as they claim. Marxists hold to "scientific" socialism, Utopians to "non-scientific" socialism, they say. A conception of a society with no social problems is in fact unscientific.

(We cannot refuse to solve problems, nor can we reach a Utopia. But we can go on, solving problems.)

Marx himself: He was German, had a Jewish father. He was extremely precocious. He came into pretty clear view of the major social problems that confronted the

western world. This at an early age—about fifteen. He arrived at answers by twenty, and spent the rest of his life proving and expounding them.

Marxism is important because it is determinative of much of the modern community. Many people believe in it. Marxism is the basis of communistic and much modern socialistic theory.

Marxism is the heterodox (revolutionary) form of the classical theory. The fact of Russia is sufficient to require that we learn as much as we can about the belief that has occasioned the recent impasse in international intercourse.

Marx began very fervently to try to explain the sorry state of things. He had a conviction that something was fundamentally wrong. He decided early how things should be. Then he found tools for his analysis. Two main ones—sources of Marx's conceptology:

1. Hegelian dialectic: German background.
- 2, English classical economic theory, especially Smith and Ricardo.

From Hegel, Marx got his dialectic—his way of determining truth, sequence in rational determination. Motion or movement occurs as a result of comparative placement and direction and strength of the forces of thesis, antithesis, and synthesis. Like Newton's concepts of (1) equal and opposite reaction and (2) motion continues until something happens to stop it. Application to historical theory, to Marx, involved explaining how institutions came about. He adopted the classical concept of class interest and the Hegelian concept of dialectic.

Institutions have to do with groups of people. The theory of history consists of the development of a thesis in the form of a dominant class determining the behavior of the community; the development of an antithesis, not like, or opposed to, the thesis, determined by economic function; and finally the synthesis, resulting when the antithesis develops enough force to move the thesis. Revolution. Then this process starts over again; synthesis becomes thesis.

Then there is the theory of logic, or reasoning, set up in contrast with formal logic.

Minor premise, major premise, conclusion—syllogism. Marx said formal logic was not true. Things in fact don't happen the way the classical philosophers, especially Greek, reasoned. Marx said reasoning had to be in conformity with the problem to which it is applied. But he didn't go far enough.

In regard to the theory of history:

1. The only thing about which we can be certain is change. Not an assumption but a demonstrable fact. Change is constant. Change is a reality.
- 2, The cause of change is necessarily the result of contradiction, opposing tendencies, resultant in the form of movement. This movement plays out as a result of any given set of forces. The release of tension. The concept of equilibrium (synthesis).

All of this is Hegel's contribution to philosophy and Marx's to economics.

In applying this to history, Marx asked, what is the philosophy of history? What are the determining factors in history? You would have to find the thesis, antithesis, and synthesis in history. It is the action of groups that determines the modification of institutions. These groups take their attitudes from the economic structure.

Making a living is the center of activities.

Some philosophers have held that there are no determining factors in history. It rests on the notion that human behavior is unpredictable, so you can't have a

theory of history. This is wrong, although some evidence seems to point in this direction. Marx is right in that. Of course you can predict human behavior. If you couldn't, you wouldn't have institutions. Some things you can predict with complete accuracy, some not at all. You can determine which ones can be predicted and which ones not. The theory of probability. You can't predict in an individual case the ratio of consumption to income, but for the group you can predict it with certainty. Predictability varies on two axes. But you can predict human behavior just as you can predict in chemistry. The chemists can't predict everything, for example the behavior of enzymes, because they don't understand everything. Psychologists can predict the same way; there are some things they don't understand and thus can't predict. If you understand a person well enough, you can predict his behavior.

4-25:

Hansen's theory of depression can be tested by the concept of capital outlay. Capital saving causes depression--assuming certain institutions.

Institutional inventions are intrinsically no less scientific than technological inventions. Institutions, like technology, are used for all kinds of purposes.

Back to Marx: The dialectic was developed by Hegel in an effort to handle process.

History is not static. Marx absorbed much of this. The idea that history is evolutionary, but it goes by revolution. There is no one natural order. All orders contain the seeds of preceding orders. (Toynbee and classical economics grow out of this idea.) But strangely enough, out of this Marx arrived at an institutional situation in which there were no new orders, only more of the same. Something like the Utopians.

The theory of history has been a great difficulty in the thinking of scholars. Some say there are no determinants—a dance of the atoms, fate. But intention is part of the original plan, and you can't outwit it.

There are several objectors to Marx's theory of history:

1. Idealistic
2. Humanistic (will)
3. Materialistic

The first is an idealistic interpretation: Man will determine something, think it out, and bring it about. Marx and Veblen both objected to this, saying that ideals are not scientific. But ideals are subject to scientific treatment. Human interpretation.

The second: the great man idea grows out of this. It can take the form of God's will, Nature, etc. Out of both one and two came the notion that you can't predict, because you can't know the causes behind human behavior. Either a constant or a variable. If the first, no change; if the second, can't predict. So there's no theory either way. First, no history; second, no theory of history.

In the materialistic interpretation, history makes the man, not man makes history.

Caesar wouldn't have been a great figure if it hadn't been for history.

All these arguments are meaningless, but they're common.

Hegel believed in the idealistic interpretation.

In contrast to this is Marx's theory, which he expressed as Hegel's philosophy upside down. From clod to God, instead of God to clod. Started from the physical realities, objective factors.

1. Purely biological or physical, such as Newton's laws of motion.
2. Race theories. Struggle between man and nature. Races best fitted to cope with the environment dominate.
3. Geographical interpretations. Montesquieu, modern fascists, etc. Theory of the climates. (Myth.)

Although Marx took the materialistic view, the key was not found in something material but in the mode of production. It determines all other aspects of social life. Economic interpretation. All aspects affect each other. The primary one is the mode of production. This is not technology, but the mode, which is made up of the forces and the relations of production, both of which are institutional.

The determination forces and relations in capitalism, according to Marx:

1. Separation of means of production and ownership. People who produce don't own the means of production.
2. Free labor.
3. Social operation of the physical means of production.

Out of this grows the seed of the destruction of capitalism. This destruction is not automatic but inevitable. Inevitable class consciousness, which brings about destruction.

Power systems are inherently static (the relations of production) and thus self-destructive.

The forces of production are determined by the physical aspects of the productive process, which are not technologically determined.

4-26:

Objections to non-theoretic (dance of the atoms) theory of history made by two groups, the idealists and the materialists. (1) Hegelian: realities are formulated in the mind; the world is a projection of those operations; (2) basic realities are found outside of man, in Nature or God or something like that (extra-human). The Nature group of this second category of idealists have been attacked as teleological, involving a guiding-hand concept. (Like Adam Smith notion. Also Plato, Schopenhauer, Hegel.)

Marx disclaims any relationship with idealism and disclaims Hegel's basic proposition of the realities. However, the structure of the two dialectics is the same; the pattern of thought is the same. These two groups of idealists get a sense of direction in history.

The other group opposing the dance-of-the-atoms theory of history is the materialistic group. But it is the most teleological of all.

The materialists start with physical things and conceive ideas to be concepts growing out of physical things. This approach has taken many forms, such as are found in fascism, communism, capitalism. Race theories, survival theories, geographical theories, etc.

Marx thought through most of these factors, and he found his materialistic determination of history through the mode of production. The mode of production means the whole of the pattern of correlated human behavior that eventuates in the provision of the means of life, the institutional structure. Technologies enter only insofar as they set certain patterns of relationships that cannot be avoided. From the material aspects grow up certain laws of correlated human behavior, of

necessity and inescapably. All institutions grow out of the mode of production—how you go about producing the means of life. If you don't produce them, you die. What factors determine the mode? Two kinds of relationships among persons: (1) the forces of production, and (2) the relations of production.

The forces of production are that pattern of human relationships (institutions) that are specified by their actually necessary relationships in the productive process. These patterns are not technology as conceived by Veblen. They are institutions. It is on this basis that Veblen attacked Marx. They are inescapable. Here, Marx is right.

The relations of production are human relations resulting from the use of previously established forces turned to (or parallel-ly developed with) the use of discretion over other persons' behavior (power) for the purpose of exploitation. That is, the use of patterns of human relations for purposes of attaining and maintaining power. And power means privilege; and privilege means exploitation. He also gets at exploitation another way, through his economics. It is central to his whole theory.

The relations of production constitute the thesis. Along beside this and counterpoised with it, develop the forces, which are different in character, constituting the antithesis. The relations and forces oppose each other. The thesis is old and is opposed by a new force growing out of technological progress. Out of this conflict emerges the synthesis, which then becomes the thesis.

Since the mode determines the whole of human experience, the whole of human experience is determined by the struggle between the forces and the relations. How this process gets to be revolutionary marks the diversion of socialists and communists. Marx says it is inevitable, not in the sense that persons don't have to do it, but in the sense that persons will be activated to do it by virtue of the conflict. There is necessary recognition of common interests. Out of that grows labor unions. (The Communists detest labor unions because they didn't grow up as Marx said they ought to.)

The only way that such things can occur is by virtue of multiples of such persons coming to agreement. Individually, it is impossible to bring about a modification of the relations to conform to the forces. Persons must act together, because the community's agreed relation is enforced by the community through the State, of which the force is always greater than that of any individual. The individual rebelling or circumventing to escape the incidence of the relations only does harm by arousing the suspicions of the power group, who can put down individuals. Hence the necessity of revolution. This continues until the underlying class rises up. They rise up through necessity, having an opportunity to rise up when there is a collapse of provision of means. (The institutions do not collapse yet.) When a structure ceases to perform its function, the concerted action of the underlying persons results in revolution. So it is in periods of collapse that revolution occurs. But it occurs as a rational action. The interests of the overlying and the underlying populations are not harmonious, according to Marx, only by virtue of the institutional structure, as the Utopians say. But Marx said the institutional structure has nothing to do with it. The underlying populations are seeking their own self-interest, which is in antagonism to that of the overlying populations. There is not basic harmony; there is antagonism, class conflict. The revolution comes about

through class conflict. The forces and the relations are tools to be used for self-interest, like an airplane.

In a period of collapse, the struggle for the determination of the new mode inevitably is on the side of the underlying population, through technology. The forces of production win inevitably, even if the overlying population appears to win any fighting that occurs. The new mode is as dictated by the forces of production. The forces of production become the synthesis.

Marx is not concerned with the industrial reserve army. They don't effect the revolution. The proletariat, the employed, effect the revolution.

Collapse (the failure of the institutional pattern characterized as the relations) is taken advantage of by the proletariat.

4-27:

The withering away of the state was the foundation of Vishinsky's work on Russian law. But in 1937 they changed their minds, still insisting that they were standing on Vishinsky's theory. Now they're encouraging the study of law. Berman, "Challenge of Russian Law," *Harvard Law Review*, December 1948, January 1949. (Now we have no theory of law, nor does anyone. Law is in a value void.) Russia's law contains minute specifications of property rights, just like ours.

How do the Russians explain that the state has not withered away? The state was to be replaced by an administration. The state is a power tool for supporting the relations of production. The administration would administer the productive process, and there would be no need for power. All crimes would disappear. That is the way it was outlined. But that hasn't borne out. They explain it by saying that they have no state now, they have only administration. No force, no police control. Administrators are just bookkeepers, keeping track of what has been produced, etc. Government relies on force; administration relies on production. But Russia still uses force; in fact, she has quite a few policemen.

We tend to identify would government with foreign rule. But they're not the same thing. Foreign rule means imperialism.

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The historical theory:

There are two aspects of any historical situation:

1. The forces of production.
2. The relations of production.

The primary institution through which No.2 is exercised is private property.

These two aspects are not separate but interacting, and they are in contrast. No. 1 is changing; No. 2 is static. Therefore, there has come to be a cultural lag.

Contradiction arises inevitably between the forces and the relations. This conflict is cumulative, resulting from technological development. Synthesis comes about through class struggle. In all stages of human society historically (except the most primitive and communism—the first and the last) there has been class struggle. The class will win whose interests are most nearly in accord with the forces of production, of necessity. It doesn't mean that the underlying class is "good." The underlying class always wins.

The next step in history will be the conflict between the proletariat and the bourgeoisie. The former will of necessity win. The bourgeoisie are being forced

down into the proletariat. Comes the revolution, they will disappear. Then there will be only one class. And a new theory of history will have to be formulated to take care of what happens after that.

Marx says that his theory is not one of per-determinism. Revolution comes about through what people decide. They can decide any way they want, but they don't. They necessarily decide only one way.

4-28:

#### Marx's Economics

The source of his economics is classical: British theory, especially as treated by Adam Smith and David Ricardo. It is very closely connected theory. Marx tries to determine to what degree the thesis and the antithesis in capitalism have worked out, and tries to anticipate the character of the new synthesis. He tries to do so by means of his economic analysis. Thus he speaks of his theory of history as the new economic interpretation of history.

Marx's theory of value is the same as that of Ricardo, with some refinements. He examines the commodity, which he sets forth as the fundamental unit in capitalism. He defines capitalism as a commodity-producing system. A commodity is something that

(1) is produced for the market, (2) has use value, and (3) requires the expenditure of labor to bring it about.

1. It is for sale.

2, It depends upon the wants of the consumer and the satisfaction of those wants .

“Use value” involves no social relationships, no qualitative difference. “Exchange value” involves no qualitative differences but only quantitative differences. It starts out with the figure that in some sense or other, 1 pr. of shoes = 7 bu. of wheat in exchange value. What does this mean? Something in one must be equal to something in the other. That something is labor, the only common attribute of all commodities.

Exchange-value has only quantitative difference, use-value only qualitative. Marx has three theories of value: (1) value, (2) exchange value, and (3) use value.

Value is real value and involves both qualitative and quantitative differences. It is quantitatively expressible by virtue of its being constituted by embodied labor (Locke). It is qualitatively variable by virtue of the fact that labor varies in quality. But it is not just the sum of exchange and use value.

In determining value, which is embodied labor, Marx had to get some unit—a unit of value—to be used as a tool. It creates the unit that he calls the socially necessary labor. It can be measured quantitatively in terms of time; it is the time required, in the prevailing technique, using the composite (average modal) skill, to create a product. He takes pains to point out that he is not doing what Ricardo did in arriving at labor content. (Ricardo arrived at average labor and avoided the problem of qualitative differences.) Marx faces the problem that Ricardo avoids, but fails to solve it.

Labor must be socially necessary and must also produce the right portion of commodities that the market demands, by virtue of the forces of production. That's the theory of value.

Now the theory of surplus value. This has taken many forms—now the theory of capital formation. How does the community become wealthy? Economics has always been concerned with this. How the surplus is explained changes from period to period. Marx was looking at the same thing. How, with the labor theory of valuation, could you get embodied labor in excess of the labor that is embodied? How get a surplus out of labor?

His theory of surplus labor is the same as the classical theory of profits: return above real costs. The common sense idea of profits is still that of Ricardo—you explain everything else and it's what's left over, so you don't have to explain it.

Marx had difficulty with this, as does everyone else, because when you add everything else up and then add up income they look suspiciously alike. But still we have capital formation—embodied labor. If we didn't use up as much labor's worth in creating something as the worth of the thing we created, we have a surplus. But the worth of a thing is the labor used in producing it.

How to find a surplus. Marx points out that he disagrees in some sense with the Ricardo view. There would be no profits under conditions of competition, Ricardo and Marx agreed.

Inadequacy resulted from:

1. Common acceptance of the economy as given data.

2. The fact that no one raised the question of products; they just accepted it.

Marx didn't accept it. He said if labor produces wealth, why shouldn't it receive all of the wealth produced? A question of justice, a question of making real cost equal real contribution. (This is one of the greatest myths in literature—this concept of the theory of justice. Marx accepted it.) Somebody gets something he doesn't contribute, something that doesn't belong to him. How does Marx prove this?

Capitalists had two answers to this question; orthodox classical theory, that is.

1. It is necessary to restrict consumption in order to save, in order to make possible the creation of capital goods. The reward for saving (abstinence) is profits. If labor got all of the produce, they'd consume it all, and there would be no capital formation.

2. The productivity theory of capital (primarily coming out of Lauderdale). When capital is used it does work in the sense that labor would have to be performed if it weren't for the capital—capital as embodied labor. But there is still the problem of the surplus. How can capital embody more labor than is in it?

Marx says they haven't answered the question. He answers it. All things bought and sold have the same exchange and real value as labor. In the case of labor the thing bought is not the same as the thing sold. You pay for labor cost, just as you pay for a chair—embodied labor in both cases. What you sell is labor power, and there's a difference. That difference constitutes the surplus. In his theory of wages, he holds to his theory of exchange value—all commodities sell at cost, including labor. The cost of labor is as Ricardo said, quantity of labor. You pay what is necessary to provide that quantity of labor. You sell what he produces, labor power. This isn't true of any other commodity, because labor is the only creative commodity.

What labor produces above that required to sustain labor becomes a surplus. If ten hours of labor a day are required to sustain labor and you work labor twelve hours, you get the surplus.



Condensation of the theory of surplus value:

1. Income comes from buying and selling.
2. The quantity of labor involved in goods determines their exchange ratios.
3. But capitalists exchange not to obtain equivalent goods but more money. Buying and selling must result in an increase of money. Buying and selling is done by capitalists. How can that come about? It can't come from exchange, as the mercantilists claimed.
4. Then it must be true that the capitalist sells something with greater labor content than the thing he buys. It is the difference between the power of labor to produce and the labor cost of labor. The cost of labor is sustenance in units of labor. And labor is able to produce more than its sustenance. The excess is what the capitalist appropriates by virtue of owning the means of production.

At this point arises the contradiction in Marx. The first volume of *Das Kapital* was published about 1867. The second about 1885, the third about 1894. In this controversy between the Ricardian and the Marxist theorists, the former thought they had found a paradox— re the composition of capital.

$C$  equals variable capital ( $v$ ) plus constant capital ( $c$ ). The organic composition of capital depends on the ratio of ( $v$ ) to ( $c$ ). Some enterprises have ratios of 99:1 and other of 1:99. The paradox arises over explaining a constant rate of profit arising out of different ratios.

4-29:

Problems in surplus value arise by virtue of the theory of exchange-value. Use-value, on the other hand, is the relationship between a commodity and its capacity to satisfy human want.

Use-value varies in each individual instance in qualitative terms. Marx was carrying in mind the distinction between science and non-science as the distinction between those that can be handled quantitatively and those that cannot. Marx thought that it was the quantitative aspects of value that determine the mode of production and therefore the course of history. The use-value theory is not of a necessary concern as regard the course of history.

Exchange-value and real value (real value equals embodied labor and is therefore subject to numerical identification in terms of the socially necessary labor) are related in that, by virtue of the Ricardian theory of price, exchange-value is constantly being shifted toward real value. It never reaches a static position.

In the theory of exchange-value ((theory of comparative price), a la the Ricardian demonstration, under conditions of competition, commodities exchange at their comparative real costs. Since that is the case, the problem of explaining the surplus arises.

Marx attacks this problem by distinguishing between what is purchased and what is sold in regard to labor. How could you get more real value out of what is created than the value that goes into creating it? He, like Smith and Ricardo, believed you can't get a surplus out of exchange, because commodities sell at their real cost. They can't sell for more. This is true of everything except labor. Labor is different from a commodity in that the labor that is embodied in it is different from what it is embodied in. The only place you can get a surplus is in production. The employer purchases labor at the cost of labor, and he sells what labor can produce, which is

different from what he bought. What he sells exchanges for its real value (how much labor is embodied in it), but that isn't the same quantity of labor as what he bought. The difference is the surplus. It can come only out of the sale and purchase of labor, because labor produces commodities. You can't get a surplus out of buying and selling commodities.

Labor gets the cost of labor. It produces labor power. The employer buys labor cost and sells labor power, and each sells at the cost of the labor embodied in it.

Translated into numerical terms:

If the working day is ten hours and it takes the worker five hours to produce what he gets, the product accruing during the other five hours goes to the capitalist. He doesn't have to pay it to labor, and it's a surplus.

Capital (C) is made up of varying proportions of (c) and (v). Variable capital is that which belongs to the owner and which is used to purchase labor. Constant capital is that which belongs to the owner but is *not* used to purchase labor. Variable capital is the wages fund. Constant is composed of things already created, such as tools.

Smith's concept of circulating and fixed capital was the same as Marx's, but later classical concepts were not the same.

In view of the theory of exchange-value the rate of return on (c) and that on (v) would have to be the same or you'd have a shift of investment. But in some enterprises the ratio of (c) to (v) is 9:1 and in others is 1:9.

Then you have the problem of explaining an even rate of return in (v) and in (c) and in (C) for all firms. You also have the problem of explaining an even return to labor.

The rate of exploitation—the ratio between labor's product and labor's wage—has to be uniform, just as any other cost has to be uniform. If the rate of exploitation were 50%, the following would result:

	A		B	
v	1	.5	9	4.5
<u>c</u>	<u>9</u>		<u>1</u>	
=C	10	.5	10	4.5

The resulting paradox is never resolved. The great dilemma.

Example: A is a hydro-electric power plant. B is a strawberry plant. The incentive is to maximize profit, which is return on C. Profits must be equal in every firm. The surplus must be uniform. The rate of surplus is the ratio of what he produces to what he gets, S/v, which is the rate of exploitation.

Engels says you must distinguish between value and price. Goods tend to sell at money cost instead of real cost, which is an abandonment of the labor theory of value.

Maurice Dobbs tries to justify Marx. A theory is valid if it solves problems. If it does it's true whether it's true or not.

The concepts of value and of surplus value are the core of the whole theory.

5-2:

Ricardo attempted to explain the proportion of income going to various classes. This led to the differential rent theory and to the labor cost theory of price. Only profits and wages enter in the determination of price. Ricardo thought the capitalist class was the most important; Marx thought the laboring class.

Marx was concerned with the rate of receipt of the various factors, not only with the proportion of the total going to each.

To Ricardo, that paid to labor is a hindrance to the formation of capital. Marx said that if you increase that paid to labor, you don't necessarily decrease capital assets.

Dobbs points out that Marx's theory was not developed to explain exchange prices. The laws of capitalist development, according to Marx, stand on two major premises constituted by the theory of value and the theory of surplus value. The laws of capitalist development are inevitable tendencies inherent in a capitalist society. (These laws are really Ricardo's demonstration.)

1. Tendency toward a falling rate of profit.
2. Tendency toward centralization and concentration of capital.
3. Tendency toward an industrial reserve army.
4. Tendency toward increasing real misery.
5. Tendencies toward crises or depression.

Conflicts arise (Hegelian dialectic) by virtue of the unequal development of the forces and relations of production. The laws of capitalist development constitute that condition.

Discussion of the laws:

1. The same as in Ricardo. As capital is accumulated, the laws of supply and demand inevitably enforce a reduction in the rate of profit, even though there may be an increase in the actual quantity of profits. The rate of profit is  $S/C$ . As capital is accumulated, the supply of capital and the demand for it do not increase at the same rate. Thus with technological advancement there is less opportunity to earn a proportion of money's worth of equipment. An increasingly greater proportion of  $C$  comes to be comprised by  $(c)$  and less by  $(v)$ . Inventions are labor-saving devices, necessarily so in a capitalistic economy because at bottom labor is the only cost. The entrepreneur has no control over price (aggregate demand schedule taken as given), so all he can do is vary production, and not all can do that. Beyond that, he can change the method of production. That means an increase in  $(c)$  as related to  $(v)$ . Also, there is an inevitable tendency toward monopoly.

Thus, says Marx, the classicists admit that the very foundation of capitalism (profits) diminishes and eventually destroys capitalism.

Contradiction: the motive destroys itself. The more capitalists you have, the less profits you have. Thus Ricardo says you'll reach a state of equilibrium—a "mature" economy. Ricardo says capitalism doesn't die, it just reaches a state of equilibrium when profits are brought down to costs (rather, a very narrow margin of profits).

No incentive to invest and no incentive to withdraw capital. But Marx said capitalism would die.

Granting the capitalist assumptions, it is true that profits go down. The labor cost of labor increases. There is an inescapable tendency toward a falling rate of profits. The capitalists could not avoid this because the prevailing method determines price. For example, you have monopoly.

Ricardo: the niggardliness of Nature is the cause of poverty. Marx: the accumulation of capital causes poverty.

The other laws came out of the first one.

2. Ownership tends to go into fewer and fewer hands as a proportion of the population as a whole. The size of each unit increases. Certain forces tend to bring this about.
  - a. A limited frontier.
  - b. Technological improvement.
  - c. Competition. Prices are driven to costs. Entrepreneurs are forced to increase the size of plant to keep costs down, in order not to be forced out of business.
  - d. The efforts of individual capitalist to maintain his absolute standard of living. As the rate of profits falls, he must either (1) be satisfied with a smaller and smaller income or (2) increase his holdings of capital. He tends to do the latter, and this results in fewer and fewer capitalists. Banking effects a continued weeding out of capitalists and a buying up by others. Big business drives out little business. The point would finally be reached at which you would do away with the capitalists.
3. The law of the industrial reserve army, or “relative overpopulation.” Here Marx and the orthodox classicists are opposite. The classicists said there could be no such thing as technological unemployment. Marx said machines would displace labor, giving a greater and greater bargaining position to the capitalists. Ricardo: there cannot be any involuntary unemployment. Marx: there is involuntary unemployment, and in increasing amounts. The position was not taken on grounds that less labor would be required to satisfy wants or that there would be less capital to exercise a demand for labor, but rather that there would be a severe struggle in the labor market. The profit motive forbids employers to employ all of labor. (They tried to attack the problem that Keynes later attacks.) Employers cannot bargain at full employment; when you hit full employment you hit inflation. Counteracting forces to this law:
  1. New markets.
  2. The possibility of expansion of investment. But this comes to an end by virtue of the first law. Marx saw the problem of overinvestment like Hayek’s theory of overinvestment. Investment decreases the rate of profit and thus destroys investment, although it may alleviate the problem temporarily.

The industrial reserve army is made up not of the unemployed but those permanently out of the working class—the mob. They may now be thought of as the “unemployable.” They’re getting subsistence some other way than through the market process. Most of them don’t live very long.

5-3:

The rate of increase from primary investment. When they all get to producing, you’re going to have terrific pressure from all the five laws.

Marxists also say that the conditions of Marx’s time were in conformity with the theory he formulated. Now it seems clear that absolute misery has not increased, so that must be changed to **relative** misery. It is the disparity with which labor is concerned, they say. But that isn’t what Marx said. The disparity idea doesn’t work well with the idea of the industrial reserve army.

A lot of modern communists don’t hold to the theory of revolution any more. They want to patch up the system piecemeal. But others say you can’t do it that way.

Engels in Vol. III of *Das Kapital* finally decided that you could get along with the present system if you changed some of it. That's when he abandoned the labor theory of value. But the communists have probably held to the doctrine as originally conveyed to a greater extent than has any other group.

As for law five—the tendency toward increasingly severe crises—periodic breakdowns in economic systems are probably pretty similar to what orthodox economists call business cycles.

There are three elements in such crises:

1. The anarchy of production. The decisions relative to production are scattered among millions of entrepreneurs (mostly independent). There is self-interest in making decisions.
2. On the other hand, there is collective operation of the productive process. It is interdependent, closely coordinated, delicately balanced. This becomes more and more the case with technological development. The world becomes more nearly one unit. Marx is right about this point. This conflicts with (a).
3. Also, there is an effect of capital accumulation on the rate of profit: it becomes progressively more and more difficult to maintain effective demand.

5-5:

More about the fifth law of capitalist development. There are three elements in regard to the theory of crises:

1. Anarchy of production.
2. Conflict between production and ownership.
3. Effect of capital accumulation.

The anarchy of production is usually called the anarchy of distribution. There is diffusion of decision-making; every entrepreneur makes decisions with a view toward getting as much money as possible. This inevitably leads to confusion and instability, primarily because of varying rates of capital formation in different enterprises. In the case of this unequal development, since socially necessary labor determines relative value in the marketplace, an increase in productivity in an industry causes a movement toward that industry at the same time that labor goes away from it. This results in confusion. The first entrepreneur who introduces new techniques always makes a lot of money, and he can bid temporarily the factors away from other enterprises. However, if the law of the market works, the prices of commodities produced by the improved technique are driven down. Here Marx gives a clue to the non-monetary theory of business cycles—a great increase in frictional unemployment.

He also approaches this from another standpoint—the underconsumption approach. The capacity to produce goods in some instances exceeds the capacity to recover those goods from the market. Here he abandons the classical position on the matter. Marx held that you could make progress by working toward communism, abandoning Malthus's theory of population. The reason for insufficient effective demand is that these adjustments (frictional unemployment) come after rather than before the overproduction, so you have a glut on the market. Since Keynes's *General Theory*, however, a theory of gluts cannot be supported. The greatest "glut" occurs at the highest peak rather than at the lowest point of the business cycle.

However, Malthus and Marx are looking at a phenomenon that all of us recognize.

The classical tools, which they used, were inadequate for the problem. They were looking at the failure of effective demand. They were attacking Say's Law. This is the distinction between Marx's and the underconsumptionists' theories of crises.

As for #2, the actual physical carrying-on of the productive process is social in character. However, private owners appropriate the goods. The two clash. The owner's behavior in appropriating the goods has no bearing on his behavior in producing them. When private production disappeared it withdrew the synonymy or harmony between the forces of production and the relations of production on this point, and this brought on struggle and the need for a new synthesis.

As for the first four laws work, the terrific receipt of income experienced by fewer and fewer men becomes so great that this income can't be spent. Thus hoarding and thus insufficient effective demand, say Malthus and Marx. The inability to consume all that is produced, and thus a glut. Thus there is an inevitable tendency toward depression. The forces require a new mode.

As capital accumulation goes on, the rate of profit goes down, and the entrepreneur struggles harder to increase the rate of surplus—the third law. Thus the conflict gets worse and worse. The divergence of interests and opinion becomes very marked. This increases gradually as the severity of depression increases.

Eventually the degree of recognition will be such that a depression will bring a direct attack on the relations of production. New orders will be established.

Marx said this should be done with very little bloodshed. Russia planned it that way, planned a bloodless revolution. It worked for about eighteen hours, but then it got bloody.

Marx's theory of crises is not one of business cycles but rather one of depression.

There is a constant tendency toward depression under the mode of capitalism.

Then how explain the upswing under the Marxist theory? Later Marxists did.

Marx's theory is different from Malthus's theory of depression in that the latter is a constant downward tendency while Marx conceives of upswings. How can he explain them? In periods of depression, temporarily the real wages are pushed down below the labor value of labor. That is, real wages (market wages) are pushed down below subsistence. Then you get a surplus that should accrue to the remainder of the community but that goes to the entrepreneur and induces him to produce a little more, hire more men. The workers stay alive during this period but wear themselves out. Real costs have been reduced, but not exchange value. The difference accrues to the capitalist, and his rate of surplus has been increased.

The commodities produced still have the same embodied labor but labor gets less than the real cost and the entrepreneur gets more real value. Both his rate of surplus and his rate of profit are increased. Both the non-monetary and the eclectic theories involve this notion. In fact, all of the theories of the business cycle except that of Keynes involve Marx's notion, although they're not stated just as he stated them. Now they say when wages are driven below subsistence, costs are finally driven below price and the capitalist can make a profit so he has a notion to produce. Thus recovery. Then costs are driven above price by virtue of an increase in wages, and the downswing comes again.

Institutional structure in the USSR. The situation in which the new development took place.

The communist doctrine had spread rather rapidly among a narrow circle in Russia around the turn of the century. Russian novels, developed to a very high level as a medium of expression, give some expression of this. Russians throughout their history have been noted for personal integrity in their literature. They say what they mean, and they also attempt to act the way they talk--this probably growing out of a very long experience with the feudalistic structure. Feudalism is characterized by identification of position and function through birth. Russians have always been feudalistic to a great degree. Events around the turn of the century drove home to the thinking people, a large part of whom were aristocratic, the idea that there was something wrong with their economy.

History books tend to translate the Russian Revolution like the French Revolution—a desperate people fighting blindly. But the Russian Revolution was not so.

The idea of revolution spread so rapidly that the Czar was convinced that he should try to do something to remedy the institutions. These difficulties were like those found in any economy in a transition from feudalism to individualism. Russia has been industrializing for some time. Great fortunes were being accumulated at this time. Bribery grew up. There grew up a self-recognized inadequacy on the part of the aristocracy. For a time the Russians were forced to act one way and talk another. The ruling groups tried to make adjustment, establishing in 1905 what they said was a constitutional monarchy. They gave the citizens some voice, and ostensibly obstructed unlimited authority of the Czar. But there was still a basic difficulty, much the same as it had been before. The Czar still had authority.

The problem of acting one way and talking another can be solved in one of two ways: change your actions or change the way you talk. They had changed the way they were talking in 1905.

This didn't last very long. World War came along. Organization became immediately and disastrously apparent. Russian soldiers were forced to go into battle unarmed while fighting a modern war. They went through it up to the point of collapse.

The collapse came from inside Russia. In the Revolution in the Karensky affair (1917), an illuminating situation appeared. Karensky was a moderate. When things ceased to operate, the Soviets took over. They said they'd take charge of the food supply and keep things going until they could decide what to do. This went on for quite a few days, until it became apparent that the means of life were not being distributed. The people tried to get at these things.

The Communist party had two factions, the Bolsheviks and the Mensheviks. They had split over what Marx meant. (The split continued up to Stalin and Trotsky, the two heirs of Lenin.) Lenin and Trotsky were the leaders of two groups. Lenin, an exceptional strategist, was able to control the situation. The Bolsheviks took over. The Allies had sent intervention armies into Russia. We didn't comprehend the problem at all. We sent a few battalions in and expected the Russians to sort of do as our battalions told them to do. The Russians were pretty kind to them.

From 1917 to 1920 it was a completely amorphous situation in terms of structure. The Bolshevik Army took over—took what they wanted without accounting for it and acknowledged no responsibility. After the intervention armies were out, they

established “the dictatorship of the proletariat.” During the war period they tried to go all the way to communism. First they tried to do away with money but had to reintroduce it. They had to preserve some old institutions to give the economy some order.

All the time this was going on, the fight of the isms was going on. The Bolsheviks were not really the majority—limited to about 2% of the population. They again brought out vehemently the idea of an established belief dictating actual behavior. (The habit of saying what you don’t mean always caused the other nations some trouble. Since then they’ve learned some traditional behavior.) The war going on was very bitter. The concept of what was believed best for the community was being carried on regardless of everything else. If anyone objected, he was killed. The Bolsheviks won—got into de facto control. They then had the problem of bringing the practice into conformity with the theory. The struggle between the Bolsheviks and the Mensheviks was as to how you should go about doing that. Stalin won over Trotsky. Stalin had a measure of Fourier in him. Trotsky said this way was impossible—that a communistic nation could not survive in a world with other economies. Trotsky was really closer to Marx. He wanted violent revolution right then. But Stalin wanted to establish communism in Russia and let the rest of the community have revolts when they saw the example of Russia. So they’re operating according to Stalin’s beliefs. (They’re probably still prosecuting Trotsky in Russia.)

The Stalin group insisted that what you must pay attention to is the USSR. Yet the world seems to be acting as if it thinks Stalin is following Trotsky’s views. But Stalin has followed his original plan pretty well. He still wants internal revolutions. He does send agents into other countries, but not much aid.

Russia’s policy now is to spread communism throughout Europe. [This is being written in 1949.] We’re trying to stop it with, for example, the Atlantic Pact. That’s the wrong way to try to stop the spread of ideas.

Seemingly the Russians really believe in communism. They have reconciled their theory with their practice. They admit to the party only those who really believe in it.

Machiavellian and communistic philosophies are opposite in the structure of their theories, although they use many of the same techniques. Communists and fascists are very strongly opposed to each other.

The Stalinists decided they’d have to raise the wealth of the nation, as conceived by Adam Smith: (1) productivity per unit of labor, and (2) proportion of total population employed in producing. The determination of the first are; (a) the accumulation of the tools, and (b) the parsimony of the individual (abstention from consumption.) The Stalinists believed in Adam Smith right up through his theory of capital formation. They try to accumulate fixed capital by abstaining from consumption. They set up five-year plans—with amazing success—all this in an effort to increase the productivity per unit of labor. They also worked on trying to employ a greater proportion of their population.

Economists in capitalistic countries convinced the people in those countries that Russia would fall—the communist regime, that is—because they didn’t have any money. But of course it didn’t fall to pieces. There was much investment in Russia of American capital—both material and know-how—from the U.S., Britain, France,



and even Russia. The Russians were thus able to build up the beginnings of what they now have—a pretty highly developed industrial nation. Russia passed Germany in the thirties in the production of pig iron. It is now the world's largest producer of gold.

5-10:

Readings:

Loucks and Hart, "Revisionism," "Fabian Socialism."

*Encyclopedia of the Social Sciences*, "Evolutionary Socialism," "Fabianism," "Socialism." Also Vol. 14, pp. 202-204.

Sydney and Beatrice Webb, *A Constitution for the Socialist Commonwealth of Great Britain*.

*The Fabian Tracts*, Nos. 7, 70, 142, 146, 157, 159, 164.

*The Fabian Essays*, pp. 3-29, 131-149, 173-201.

John Strachey, *What Are We to Do?* Ch. 5, 6, 8, 9.

George Bernard Shaw, *The Intelligent Women's Guide to Capitalism and Socialism*.

Laidler, *History of Socialist Thought*, Ch. 20, 21.

Up to 1936 there was considerable doubt as to how they, the Russians, should proceed with their plan of bringing about revolutions. The Constitution of 1936 describes the structure of Russian society. Under that Constitution, the structure is the direct application of communist theory to the actual situation confronted by that structure, as nearly as the framers could accomplish it.

The Russian constitution is quite similar to ours. The legislative body is the Supreme Soviet of the USSR—made up of two houses. Membership varies from year to year; it has about 1300 to 1400 members. It has two Houses, set up in some sense parallel to ours: the Soviet of the Union and the Soviet of Nationalities. The former is elected according to population—1:200,000. The latter is made up of various kinds of political jurisdictions that have been incorporated into the Union, irrespective of population, even more irrespective of population than our Senate. The two Houses are designed to be about the same size. They are equal in power. Either can initiate legislation, and the consent of both is necessary to pass it. The Supreme Soviet meets every six months, and members are elected every two years. Both Houses elect a smaller group (now about thirty-four members), which stays in session all the time. The members of the Supreme Soviet are presumed to carry on their regular jobs and are called to session. If the Supreme Soviet cannot agree, an election is called.

The small group is both the executive and the legislature, but it does not act directly as the executive. Out of it are appointed the Supreme Court and the procurator. The Supreme Court has thirty-some justices. The people's courts are the point of origin of most all cases. These courts are made up of three members, two of which are not lawyers. Majority decision rules. But cases may be appealed to a higher court.

The Council of People's Ministries (formerly called the Commissariat) carries on the business of government, reporting directly to the smaller group. There are two groups in it. One group of ministries carries on the functions of government. Both groups of ministries carry on political and economic activities of the areas assigned to them.

Almost everyone is elected; there are very few appointments in Russia. It starts with the Supreme Soviet. Anyone can run by getting a nomination from any recognized group. The campaign is pretty heated. But the balloting doesn't occur until it has been narrowed down to one candidate. The nominees are voted on, however. Various nominating groups continue to meet together until they weed out candidates by majority vote. The one remaining must be acceptable to the Communist Party. He is certified and put on the ballot. The voters can vote either for or against him. It's a secret ballot. You can vote if you're eighteen. Before the Constitution of 1936 you practically had to be a Party member to vote on anything. Now there are no restrictions as to race, etc. Historically, there is about a 99.7% vote in a general election, and fewer than 1% vote against the candidate. So the campaigning is the real thing.

A one-party system does not as such mean an undemocratic procedure. It may be more democratic than a two-party system. You have to fight it out on the issues instead of according to the party.

It appears that there is no interfering with voting in Russia, whether or not their system of final voting makes any sense.

When the final candidate is certified by the Party he also has to certify that he is willing to serve.

Clarification of voting: There are other restrictions. If a person lives off others he can't vote. That eliminates capitalists, the rentier, the insane, those in jail.

Russia is in fact ruled by the Soviets. There is a Soviet for every village, for every cooperative farm, for every republic. The USSR can take in any group that wants to apply for admission.

Stalin is Secretary to the Communist Party. He stands up for re-election every two years. He is nominated by someone in his home town. He always gets a 100% vote. He is chairman of his council. He has his finger on everything all down the line.

5-11:

An ism is a systematized body of theory that validates a particular institutional structure.

The Russians have really tried to apply communism. But the Russian economy, like all economies, is mixed, although it is probably more nearly communistic than any other.

It is impossible to make a division between the economic and the political institutions in Russia.

The use of mandamus in injunction is about the only peculiar attribute of government.

To gain control of government you get *de facto* control of the means of life. That's why economics is so important in politics.

#### Labor in the Soviet Union

Russia has never had much unemployment. She didn't have much under the feudal system.

The war cut heavily into her working population. Russia lost about fifteen million in the war, about half of whom were soldiers. The Russians fought the major part of

the war. This loss was a very severe drain on her laboring force. Her problem since that time has not been one of unemployment.

In the present five-year plan she expects to obtain a laboring force of thirty-three or thirty-four million, not including co-op farms, in the Union economy—which is to say the socialist economy.

Training for these jobs is a long story. They have established schools of various sorts for technicians, etc. Admission to technical schools is pro-rated out to the various economic institutions in the Union. They also have training on the job for particular job in plants. Many plants also have a school of their own. Then of course they have regular schools for teaching common tools (reading, writing, arithmetic). Their literacy is higher than our own; they are over 97% literate.

A lot of people got rich during the war, so Russia changed her money system. She gave them about two weeks (this was about December 17, 1947) to exchange their money for new rubles. For the first 3,000 rubles she exchanged ruble for ruble. From 3,000 to 10,000 rubles she exchanged 2 for 3. Above that she practically took the rubles away from them. She also changed the interest rate. So those who benefited most from the war lost. Purchasing power was shifted to those who lost during the war. This was in an effort to stop inflation.

About 85% of the workers in Russia belong to unions. They call them trade union, but they're not; they're industrial unions. (They do have some trade unions too, however.) These national unions comprise the all-union congress. The smallest organized union group they call the production unit. They also have a shop committee and a works committee.

These unions carry on certain functions, some of which are peculiar to Russian unions and some of which are not. They don't bargain for wages; the government does that. They do act as an agent for a worker to pursue grievances. It reviews management policy, carries on a social insurance function, and provides cultural activities.

The unions cooperate through contracts. These contracts are designed under the supervision of the ministry concerned. The contracts specify only the general and uniform conditions. Specific conditions are left to the local divisions of the union and the management. They originally set up an 8-hour day and a 6-hour day week. Later (in 1927?) they reduced it to a 7-hour day with every sixth day off. They lengthened it during the war and since reduced it. Vacations are from 2 to 8 weeks, with pay.

5-12:

Industrial unions in Russia are made up of members of a producing unit rather than members of any particular trade. Dues are about 1% of the income of the individual. Members do not participate in policy formation. A trust or producing unit works out a contract between the trust and the organized labor unit. The tendency since the war has been toward independent management decisions, although the laws passed by the Supreme Soviet very frequently specify details, such as work week, child labor, etc., so that management has no discretion on many matters. Russian law is very closely bound up with official policy—a theory of integration of the state.

Stalin understood history better than Trotsky.

These unions carry on cultural activities. This puts some pressure on managerial decisions, but increasingly less so. They carry on insurance policies for the Russian people. They carry grievances to the courts.

The hours they work are specified by law. They vary for different occasions.

Vacations are also specified by law. Teachers, scientists, research workers, and those who work in the far North are usually given two months' vacation. They can take a bond instead of a vacation. The bond pays 2% interest. Through it the worker can take a vacation any time and pay for it with the bond. He can also take vacation without pay.

There are four systems of wages: (1) time-work-rates (so much per hour); (2) time-work-rates plus bonus (in direct contradiction with Marxian theory but found necessary in order to get the work done—for industry, for example, stopped producing furs when communized, so it had to be capitalized); (3) piece-work (recommended by Marx to lessen the rate of exploitation)—quotas are set up and pay varies according to production; (4) progressive piece-work rates—the more you produce, the more you get, not only for the additional units of production but also more *per unit* when you produce more than the quota. The rate increases very rapidly as production increases. The quotas are set arbitrarily; they are *not* averages. In America piece-work rates are usually thought to be a way to increase the average. In Russia the quota is not changed if average production goes up—everyone may produce more than the quota.

Their salaries usually include bonuses. There are also many medals and honors.

Medals increase prestige in the community. Managers compete to get their output above the quota.

Discipline. The Russians had a lot of trouble when they first started, especially with peasants in industrial plants. In highly integrated tasks, when one stops to roll a cigarette it stops the whole process. There was also the problem of absenteeism and tardyism. How could they solve it without firing a man? Everyone has a work record that always follows him around. In some cases an employer cannot hire a man without his work book, and sometimes he can't hire a man if his work record is of a certain character. The Russians delegate distasteful jobs to those with bad work records. So they have pretty much solved such problems.

5-13:

How does the Soviet Union go about determining its economic operations—its planning operations? We know the structure of institutions and the accomplished results in Russia. We lack data on how operations are actually carried on, but this should be fairly well “deducible” from what we do know. Decisions in any institution, in the absence of specific policy, are made according to the political potency of the individuals concerned. In Russia, where there is policy, it appears that policy determination is made by those who execute the policy. Foster's conclusion is that there must be fairly uniform agreement on the part of those who carry out any plan. The results, in terms of weight, measure, and count, would indicate that.

The state planning commission is the highest planning authority in the Union. Its data are fairly reliable.

Foster suspects that economic policy is pretty much democratically determined.

The state planning commission is made up of seventy members. It initiates and finally communicates the plan as a plan.

A few words about planning as such. The concept of planning has been kicked around pretty much. We have a tendency to associate planning with socialism or not-capitalism, which is poppycock. There is always planning; the question is how it shall be done. It is necessary, in the first place, that those who carry on the functions in any process understand the rules. We have all kinds of planning—the Constitution, parking ordinances, etc. The general outline of the plan has to be available to everyone. This general principle hold down to the smallest unit, even if it is composed of only two individuals.

Planning, then, is inescapable in any economy. The differences are in how the plan is determined and by whom.

The Russians set up a system of determining a plan that really has the force of law--to do it integratedly. Marx had found a contradiction in the anarchy of decision-making and the cooperation of production. The Russians set up a state planning commission, to avoid the contradiction Marx found. The commission sits down and draws up a plan. The big plan is the five-year plan. The Russians are now in the fourth such plan. The commission has available to it all research reports, university work, labor union data, etc. Also, they have a direct connection with the state bank, which is set up by the council. The bank's planning is subsequent to the commission's planning.

The commission sends its plan down on two bases, one geographic and one functional. It is brought together at both ends. The initiated plan and the finally adopted plan come together at the commission. In its traveling it becomes definitive, through these two bases. The geographical and the functional channels revise, consider, and change the plan until it gets to those who are to carry it out. Those who have discretion in carrying out a certain plan look at it and change it as they see fit. Then the plan starts back up, its parts being brought together on the way. It is reexamined in the light of the total plan, all the way up. Coordinators look at all parts of the plan, seeing how the parts interact. When it gets back to the commission, it brings together the two sources or channels, geographical and functional.

When we say "planning," sometimes we mean an investigation of what's going to happen, the projection of trends into the future. The Russians think of it as an investigation, or determination, of what *ought* to happen. (Of course we have planning in this sense too.) The plans have two major problems involved: (1) the problem of keeping it flexible enough to accommodate to variations in determining factors (such as drought, war, etc.), so that changes can be made immediately.

5-16:

Economic problems are involved in financial aspects of the plans. The Russians try to keep the financial planning in as close a parallel with the physical operations as possible. The effort is to keep purchasing power in those particular enterprises, and for consumer goods at large, in equality with the price tags in those markets. They try to keep profits in equality with what that enterprise will buy. On the consumer side, they try to keep payments to the factors (labor, interest, and

profits) in conformity with the prices they set in government enterprises. They have been way off in keeping effective demand in conformity.

There is the problem of estimating the character of production in terms of consumer purchases. How do they know how many red shoes, for example, to make? (One of the common sources of gain is in the difference between law and custom. In any economy, there is almost always considerable gain to be found by taking recourse to one and then the other. Bootlegging example.)

(The mores principle denies the value theory of institutional adjustment.)

The Russians of course have confronted such problems, and they have tried to meet them with institutions headed by the State Bank. Most operations are carried in Russia, as here, through credit. The Bank makes loans and gives credits, clear on down to individual plants and persons. Credit for consumer use is restricted (in dates of maturity) as a matter of policy to the periods intervening between receipts of income by the borrower. All banks are integrated into one group under the heading of State Bank.

One problem they haven't been able to solve is that of the impact of the rate of profits on goods in the market. The Planning Commission and the State Bank estimate profits so as to parallel or equal the flow of price tags. If a man sells produce under very favorable conditions, things get fouled up. He has too much purchasing power, so someone else can't get the goods he wants to buy.

Attempts to solve this problem: They try to make public figures on production, and they encourage the purchase of products of which there is an over-supply. They have been unsuccessful in this. It has resulted in the continuance of a difference between accepted procedure and the law and thus a continuance of private business, the thing they want to get rid of. However, they have kept the problem within tolerable limits. They use medals, the universities, etc., to try to mould public taste. But they don't worry too much about that problem because they ultimately expect it to disappear—a state reached in which goods have no price.

Re the problem of keeping purchasing power equal to goods and services and keeping money up to the task of commanding these goods and services: The Russians allocate the materials and provide money for their purchase. But they have found it more efficient just to let money take care of allocating materials. When money is borrowed the loan is paid not by the enterprise that borrows the money (if that firm makes a loss but is thought to be economically desirable) but by other firms that make a profit. So security is almost without meaning in the Russian banking system. Here is the essential difference between her system and ours. They keep track of loans not to make a certain person liable for paying but just as a matter of bookkeeping (in line with planning the money system). They are not bound by pecuniary requirements except as an entire nation. If things seem not to balance they have to find out where the "missing" money went.

They agree that supply and demand are physically equal—like Ricardo. They disagree with him that money is automatically parallel with and equal to the distribution of goods. They make it true by law; we think it's automatically true.

Another problem is the matter of the character of investment and the rate of investment. In our economy that depends on (1) the calculation of the investor as to the rate of effective demand for the product in question, and (2) banking policy and government fiscal policy. The Russians don't do that at all; they know exactly

what the market policy of an enterprise will be. How do they go about determining whether to put in a shoe factory or a diaper factory? They don't go by the price system; they merely use it as a device. They decide through planning. The Planning Commission decides the proportion of the total resources of the community that will go into a particular commodity, such as textiles. They do so not in terms of effective demand, as we do, but by looking at their historical experience to see whatever influences such things and whatever is occurring in the remainder of the community that will affect that particular commodity. They don't simply order that a certain amount of a commodity be made and make the people like it or lump it. They try to determine what the people want, as we do, but by a different method.

They are finding it progressively more difficult to transfer the evidences of individual accomplishment away from those things that require large expenditures. They are going toward large differentiations in purchasing power. They have adjusted quickly to pecuniary standards as a criterion of judgment—not completely so but toward that—despite their efforts to the contrary. Their differences in income are considerable but nothing like ours.

#### 5-17: The British Kind of Socialism.

British socialist development was very important.

First, a consideration of the Fabians—a group of persons who organized themselves for the purpose of what they would call educating the people in Britain for socialism. It includes many intellectuals, such as Sydney and Beatrice Webb, H.G. Wells, George Bernard Shaw. It has been an important influence on British thought and thus on action.

The Fabians keep their numbers small. An educational institution, not a political party. But they have been active in British politics—active in the campaign of 1906, for example, which first brought the Labor Party to power. The Labor Party has always, in some sense or other, been socialistically inclined.

Evolutionary socialists. They have been very mild in their reform proposals for the most part. The Webbs, however, are not so mild. A remarkable couple, wealthy, fairly radical Marxists—their analysis not entirely Marxist but in large part founded upon it. There have been influences other than Marx, however.

“Wait for the moment and then strike hard.” That's what they did in Britain. Another frequently stated maxim in their literature is: “Step by step.” Use research and persuasion. They do this mostly in reference to specific problems as they arise.

Present structure of Fabian theory is based upon the marginal utility theory of value. This leads to Shaw's position that you have to have equality of income.

Besides the marginal utility theory of value, the other basic theory behind the Fabian structure is the Henry George theory of rent.

When they struck, they started trying specifically to transfer about 20% of the economy to a socialistic structure. They have accomplished most of this, and now they are trying to make it work.

Back to the two the two theoretical bases of Fabian socialism:

1. Marginal utility theory of value.
2. Ricardian theory of rent.

Henry George has had more influence in England than in America. He wrote *Progress and Poverty* while trying to figure out the depression that began in 1873 (?). The Ricardian rent theory says that as population increases, the market's worth of product decreases as more and more capital and labor are applied to land. George goes on: Rent is proportionate to the richness of the land. Speculators purchase land and cut off the return to labor of higher production. Wages and profits then are reduced. Wages are reduced to what can be produced on marginal land, and the margin is extended by speculation.

Like Ricardo, George points out income coming from the product of land other than at the margin becomes rent. It becomes payment for the non-productive "participation" in the economic process. So since land is limited and differs in fertility, wages must be forced down as poorer land is brought into use because wages are the product of the poorest land in use.

Again like Ricardo, George says that if all the product went to land and capital, society would be richer. So George proposes to destroy rent, through the single tax on land. Tax the entire differential. This would:

1. Help labor and capital formation by taking away the burden of their tax liabilities.
2. Increase productivity by the use of more productive land, which would increase the wealth of the nation in Adam Smith's terms.

The unearned increment that is rent is the product of the community and should not go to individuals.

Ricardo did not propose the single tax, but he made it possible for George to do so by developing the differential rent theory. Ricardo was no reformist as Henry George was. Ricardo didn't object to rent, but he did object to extending the margin.

Then the Fabians took off from George and extended the theory to capital as well as land. Income from capital is also "unearned."

(George also influenced Sun-Yat-Sen.)

The Fabians in England have accomplished actually confiscatory taxation on some things—sometimes more than 100% on income from capital assets. Very high inheritance taxes.

Henry George was an individualist, not a socialist. He wanted to facilitate free private enterprise, to further the accumulation of capital equipment, that is, both circulating and fixed capital, thus helping both capital and labor. The whole community would be better off by virtue of this impetus given to private enterprise.

The Fabians extended this differential rent theory to all assets, and thus extended George into socialism. They maintained that George and Ricardo were in error in thinking that capital was productive. Proof of this required a shift to the marginal utility theory of value. Here there are two alternatives, the neo-classical position and the Fabian position.

If you use the marginal utility theory of value (price theory), there is no distinction between land and capital. Money's worth is all you have. So the Fabians, by shifting to marginal utility theory, shifted from capitalism to socialism, by taking the only other alternative. So unearned income is that going to other than labor.



Fabians deny the distinction between land and capital that Ricardo and Henry George make.

Ricardo and George distinguish between land and capital on three bases:

1. The distinction between gift and man-creation. Land is a gift of God, and capital is created by man. (The Fabians point out that land and capital both produce nothing alone; the usefulness of both is as a result of the application of labor.)
2. Land is limited in area, and capital is not limited in the same sense. (The Fabians deny this too, saying that land area is a function of know-how. The economic significance of land is not its lineal measurement, not simple area but economic use. Thus there is no such thing as marginal land. There is such a thing as marginal land for particular uses. The Fabians are right about that. The economic aspect, not the geographical area, is what you must talk about if you consider land as an economic factor.)
3. There is no cost of production in land, whereas capital involves real cost. (And the Fabians disagree on that too. Both have price, so they're the same thing as far as economic price is concerned.)

Thus, in the opinion of the Fabians, the Ricardian theory of rent is quite as applicable to [capital](#) as to land.

Political aspects of Fabian theory:

First, they insist on the democratic process in determining public policy. They do not distinguish between the determination of political policy and that of economic policy. Thus, they would stand on Locke, Jefferson, Smith, and Ricardo that the two processes are inextricably bound together, that you cannot have one without the other. Whoever controls the means of life controls the political process as well. The Fabians differ as to what constitutes the democratic process, differing among themselves as well as with the liberals.

The classical distinction between land and capital has gone back to Ricardo's definitions. Rent equals payment for the original and indestructible properties of the soil. Interest is the same thing—payment for the indestructible properties of money. This is disturbing because it is a seeming destruction of the rate of interest. The disappearance of the rentier refers both to the one who owns land and the one who loans money.

The Fabians disagree with this position, holding that land and capital are valuable because of developments attained by the community rather than by the individual.

Second, regarding the distinction as to the determination of policy, classical theory holds that effective demand operates in the market in terms of income. "Dollars vote." It's a democratic choice. The Fabians say that's right except that it's the dollar, not the man, that chooses. A man who has a million dollars has a million more votes than one who has one dollar. It shouldn't be that way. Each man should have equal voice in the determination of the character of production. Capitalism doesn't accomplish this; only socialism does. So representation in both the political and the economic processes should be functional rather than geographical. Persons have interests not tied to geography.

There are three major groups whose interests may be identified as common to all in the group:

1. Consumers.
2. Producers.

### 3. Citizenship.

So organization must be made in terms of functional relationships rather than in terms of point of residence. Provision must be made for democratic representation of each of these three groups. And all of these three groups are opposed to each other in some senses.

How can this be accomplished? First, separate political from economic affairs, just like orthodox economists. Have political government for government of people, for defense, justice, etc. Have a second government for the government of things, to take care of economic things. The political legislature would be based on territorial representation, as now. But the economic or social legislature would have discretion over health, education, taxation, art, recreation, public services, etc. The representatives would be chosen in part territorially--insofar as territory identifies an interest, such as ship-building--and in part according to industries. Consumers' and producers' interests would be cared for by the fact that there is no immediate need for complete socialization. You don't disrupt the flow of consumer goods, so you can't nationalize all at once, and when you do nationalize you don't do it for all of the industry. You do it piece by piece and step by step. So they differ with the communists on this point. In fact, most Fabians oppose complete socialization. Many would retain private management of one-man operations such as farming. But you do propose socialization of industries that are on a national scale and local socialization of industries on a community scale. They differ a little here. Some hold that all production is social and none individual.

Another way that consumers' interests are taken care of is through the compulsory establishment of consumers' co-ops. Advantages: they have been successful as owners of means of production, more equitable distribution of gains, more adaptable to changes in the state of the industrial arts—permit use of new inventions; allows greater choice and freedom in occupation, etc., allows greater choice in the character of consumption. Point out that consumer co-ops cannot be allowed full power. The problem of comparative costs vs. comparative wants. Propose to control this matter by setting up unions and professional organizations. Generally agreed on setting up groups organized in terms of identity along with those in terms of geographical identity. The functional groups would set limits to the success to which any efforts would be made to eventuate consumer demands (?).

They claim several things for these unions. One, it will result in an improvement in the conditions of work. Two, it will improve the dignity and character of workers.

Three, it will provide a very ready institutional device for securing cooperation.

Four, it will improve the rate of invention and development by permitting interchange of ideas and ready access to improvements.

For reasons of this kind, they would say that consumers should control quantity, quality, and price, through the democratic process, and that producers should control wages, hours, etc.

This kind of analysis has had a great deal of effect in Britain, considerable effect in New Zealand and Australia, and some in Canada.

Financial arrangements and some of the industries that have been nationalized in Britain.

The first thing nationalized was the Bank of England, which had been a private company since its charter but which had become closely allied with the government. Thus the nationalization didn't involve any dislocation or reorganization. The Bank has always been a very remunerative enterprise—the stockholders had been receiving about 12%. They paid 4% on the bonds and paid the stockholders well too, following the British technique of paying for everything and paying well and then taking away most of it in taxes.

However, the adjustments they tried have not been restricted to socialism. Trying to meet investment is a necessity for the British. The two major devices for promoting investment were set up by the conservative government. (In our own country we have tried to meet the investment problem through the Reconstruction Finance Corporation, the Federal Land Bank, etc., not too differently from what Britain has done.) In Britain, as here, the provision of funds for investment has been a problem. Britain has set up two major institutions: (1) the Finance Corporation for Industry, which makes loans above 200,000 pounds, and (2) the Industrial and Commercial Finance Corporation, which makes loans of less than 200,000 pounds. They have a committee, the Treasury Committee, to approve loans comparable to the Securities and Exchange Commission in the U.S., which passes on new issues that are to be raised in the open market. In Britain the committee passes on all issues.

The British also have a National Investment Council, which advises the other institutions, especially the Treasury Committee. This is a connecting link between the official administration of the government and the committee. After it is determined that a new issue shall be granted, the enterprise can sell securities in the open market. The two corporations for investment can furnish funds if they think the investment sound. The law of '45 permits also a guarantee of private loans. This permits bankers to make a living.

Britain has attempted through this structure to apply Keynesian theory to investment. They have tried to use productive factors to the fullest extent. But they have had other problems. In taking over the coal industry, for example, they have had a continuing process of adjustment. Socialization of coal mines has been going on for about thirty years. The mines got in bad shape during the First World War and deteriorated between the wars. The depression accentuated the difficulties. Low wages made miners bitter and rebellious. Coal to Britain is fundamental, the basic resource in British industry. Production fell off per unit of labor. That continued throughout the Second World War. The government claims to have reversed it in the last two years, but the figures aren't very clear on it. So the shift was not a sudden one from free private enterprise to government ownership. The conservative government started it. A commission was appointed to study coal mines, and in 1919 the chairman recommended government ownership. (This was sort of similar to developments in the U.S. as to railroads. It was recognized that something had to be done.) The commission recommended that the government fix up the mines and give them back to the owners, as we did the railroads. By 1924 under that arrangement conditions had become so bad that the miners were threatening revolt. So the government subsidized wages. In 1927

they took the subsidy away and there was a terrific strike, which just about starved the people to death. The miners gave in, but they didn't like it. They went to work in line with the American miners, who were under the leadership of John L. Lewis. In 1930 another committee was appointed, the Coal Reorganization Committee, with the purpose of encouraging reorganization for greater efficiency. They got some things done; they convinced some coal operators that through certain collaborative arrangements they could reduce the cost of coal.

In 1938 the Act Nationalizing Coal Resources was passed, in which coal resources were taken in title by the community but the mines remained in private ownership and control. The operators were to operate them in the public interest. Those who owned and operated the mines no longer received dividends but got government stock instead. They were paid an amount fifteen times the average earnings they had been receiving over a period of twenty years. So they received interest on government bonds, and the government got the returns from the resources. It was an interesting attempt to solve the problem.

Then a year after the war was over they took over the mines under the Coal Nationalization Act of 1946. The act requires that the industry as a whole gain from the market average unit costs. Now about half of the mines are below and about half above. The labor government points out that under private ownership half of the mines would be left out of operation. The conservative element replies that without government interference costs would be reduced and prices would go up enough to pay the costs. The labor government replies that coal production would go down and that some miners would be unemployed.

They have in fact raised coal production above its pre-war level, and with less labor. Of course many factors are involved. The coal problem is a test case. If they succeed with it, it will be a big boost for the socialist government. They are paying a lot of attention to the coal mines. They can do things such as increasing user costs without accounting it on the books, just as we did in lumbering.

The problem of meeting average unit costs in the coal industry has worried British economists a great deal. It must show success. So the opposition has accused the government of pushing socialization faster than they would if they didn't feel it necessary to socialize as extensively as possible for political reasons in case the coal thing doesn't succeed.

All in all, it would appear that the government is pretty successful. But there is controversy. Many of the miners feel that the American system has been better for the miners.

One problem is what to do with the stuff that eventuates from the production of coal, such as steel. There is the problem of exportation. We're forcing them to trade with Russia and forbidding them at the same time.

5-20:

Science is not an ism. It is a method, a process. Democracy likewise....When we cannot predict, it is because we do not have applicable theory. If the theory is right, we can predict—in *any* area.

Back to the structure of the British institutions having to do with the coal industry. Coal mining has come to be a symbol of socialization.

The problem of the international balance of trade has come to focus in a way that is holding up before the world a criterion by which the Labor Party and its program (theory) can be judged. That problem is connected with the coal industry in this fashion: Britain has to trade internationally in order to live, and the diversity of her trade is spelled out by the degree to which she has developed specialization. She has furnished the world with international trade theory. Classical economic theory grew out of it. Ricardian theory won the day, and Britain entered an era of free trade. She gathered great wealth through titles to foreign assets. She did this by selling more than she bought, with the difference taken in foreign titles. She was for a long time in the stage of mercantilism. It seemed clear that she had gained by having a favorable balance of trade. Along with that went the development of her Empire.

After the turn of the century, that theory was brought into question. Does a favorable balance of trade in fact increase the wealth of the nation? The U.S. went into the First World War the greatest debtor nation in the world and came out of it the greatest creditor nation. War debts changed that situation. The U.S. has had a favorable balance of trade every year since 1891.

After the First World War, outlets for investment funds brought about such changes as we indicated in connection with the Bank of England.

Is it automatic for a favorable balance of trade to bring real wealth? Maybe Britain became wealthy on other grounds.

The socialists took the position that a favorable balance of trade is not advantageous. They apply that in socialistic theory. Now Britain has begun to try to get rid of her Empire, whereas before she thought she had to have it to live. Now the government says Britain can't afford the Empire. An unfavorable balance is favorable.

The difference between the orthodox classicists and the socialists is this. The real wealth of a nation is goods and services, so if you ship out more than you take in you decrease the wealth of the nation. Taking titles is just a means of kidding yourself. It may be that the goods you ship out are some you can't use at home, which is another problem. There are two general international trade problems: (1) the exchange of goods and services for goods and services, and (2) the exchange of goods and services for capital assets.

5-23:

#### Peculiarities of the American Economy.

We'll look at feudalism first. It is characterized by a specification of function and position in the economy on the basis of birth (on the basis of family). Its importance is due not to the fact that any important economies are based on it but rather to the fact that it still pervades other isms. It is very apparent in our own economy, for example, as in the family. We inherit wealth and in some sense inherit occupation. Education is left in large measure to the parents. We inherit their name.

But since the destruction of the Japanese economy in the last war there is no major economy that we could fairly characterize as feudalistic.

Communists object to the family because they think of it as a feudal structure. But now they're fitting it into their structure.

The American kind of thinking is a little difficult to put your finger on. We are noticeably ism-ridden, but perhaps less so than any other community in the history of the world, according to Carl Becker. Foster thinks perhaps he is right.

American historical experience has been different. Social scientists derive from this the notion that a peculiar pattern of thought cannot be compared with another pattern, that it comes from the cultural heritage of the group. This way of thinking is unfortunate. Institutions *can* be compared, and they can be thought of as desirable or undesirable in other terms than of a particular culture.

We ordinarily think of our system as capitalistic, and it is. The American heritage is European, where capitalism developed. But Americans have had a peculiar experience, and they have come out with unique institutions as a result of it. We'll focus on these differences, remembering that our heritage is primarily European. The European culture didn't fit the American pattern very well when the Europeans first came over here. But they began to learn how to get along. Up until about the turn of this century there was a frontier, in the sense that there were natural resources outside of the market process. (You didn't have to pay for them; you could get them by just going to work on them.) They went across the country that way. And the frontier shaped the institutions. Most of our ancestors were European political prisoners.

The ones who set the original pattern in each community for three centuries were frontiersmen. There is probably no parallel instance of this in the history of the world. The mores and the folkways were modified for three hundred years by the experience of the frontier. The idea of cooperation and mutual responsibility is a peculiarity of the frontier. Rugged individualism isn't a characteristic of the frontiersman. He developed new attitudes, new habits, new abilities. There was a lack of respect for law and for the policeman.

There have always been Americans who were aware of this situation—European culture and American pattern: Benjamin Franklin, Thomas Jefferson, etc.

Along about the last half of the nineteenth century, when we sort of began to be conscious of ourselves, we began to try to express it in theoretical form. The central body of American theoretical analysis has been European—classical theory. That theory found its application in the American colonies. But always there were peculiarly American heterodoxies. Henry George was an offshoot, but he never had much effect in America. The American contribution to economic theory has sprung in most part from Thorstein Veblen. Out of that you find what characterizes the U.S., both in terms of theory and in terms of structure.

The Veblen revolt was against classical theory. Americans had always been in revolt against it, although they always talked vehemently for it. Their experience hadn't fitted the classical theory. They had been peculiarly scientific. Their problems had been constantly matters of life and death. By virtue of the length of this period, they considered economic matters very important, as matters of life and death, not just power and prestige. So Veblen found a responsive chord in America when he attacked classical theory.

He attacked the received doctrine on several bases: One, it is tautological. You have to make assumptions that generate your conclusions before you can make the analysis by which you arrive at the conclusions. Two, it is teleological. The economy has direction in the sense that it has an ultimate end at which it is to

arrive in the sense of a consciously built structure. The “unseen hand” idea of Adam Smith. If you don’t interfere with the process, it goes on of its own accord toward its established end. In nature, there are cause-and-effect sequences. Not in classical theory. The validation of institutions is that they give direction on the established track. Institutions, then, are sort of intentional, natural. Veblen says they’re not. Man intentionally directs the path of institutions. It doesn’t happen by virtue of guidance outside of man.

5-24:

The peculiarity of the American contribution to economic theory hinges on the theory of value. Americans have talked like other people, ismatically, because that was all that was available. But they haven’t acted that way. They’re the least legalistically minded people in the world. That is because they have confronted problems that couldn’t be solved in terms of an ism; problems have been continuously such that survival depended upon application of other than ismatic theory. In other communities it was not quite so serious—application of ismatic theory did not so frequently mean failure to survive, although it did mean a low standard of living. So the American people have created all kinds of institutions that have no relationship to the ism that is being applied. So Americans are most frequently termed as uncultured by Europeans. We have created public utilities, which don’t fit any of the isms.

Americans are peculiar in that respect. We have come out with a lot of idiotic behavior. We have persisted in acting one way and talking another. But we have been forced to act instrumentally.

So what is the American system? Where possible we keep it ceremonially adequate in the capitalistic sense. We make those who use the highways pay for them. That makes it just. But when it won’t work, we provide something else. Flood control, for example.

Americans have insisted on institutional adjustment where it was necessary to solve a problem, irrespective of the ism, to a peculiar degree. Not because we are wiser, but because of our experience. We’re peculiarly unbound.

And along with this kind of behavior came an articulation of it, which is the only peculiarly American contribution to economic thought. Institutionalism—Thorstein Veblen. There was considerable consternation: here was a man talking as if isms weren’t very important. But he was fairly well received for several reasons.

One, there were enough mature scholars to sort of appreciate what he was saying. Two, he wrote in such an erudite fashion that it was a matter of prestige to have read him—a demonstration of the capacity to waste. Of course Veblen was having fun, but he also had something to say. One thing he had to say was a criticism of the classical analysis.

As noted above, Veblen attacked the classical, actually now also the neo-classical, analysis on the ground that, one, it was tautological. Two, it was teleological. This was, incidentally, true also of Marxian, Fabian, and any other kind of ismatic economic analysis. That is to say, it involved an assumption of intelligently directed movement in the economy, which means that a realignment of the determining factors must be outside the process itself. An animistic preconception.

Three, Veblen attacked the concept of the “economic man.” This has been and is conceived in terms of the hedonistic calculus. There are two stages of hedonism. The first stage—early economic theory parallel to the accepted philosophy of the time—was called primitive hedonism or Benthamism. Using the two Mills as an example, James Mill had an associational psychology on the basis of contiguousness. In the second stage, hedonism was used as the basis for conceptual association, which had been changed from contiguity to similarity. Note that these are the two stages of development of utilitarian theory.

The first stage involves regarding man as a sort of passive agent—like John Locke and the Utopian socialists. But with the similarity basis man becomes an active agent. So by the time of Marshall the shift was pretty well made to man being the directing agent. This is still accepted today.

Costs are not real according to Veblen, but reciprocal.

But in either stage of hedonism, man using reason is the same, and the same answers are obtained for the same problems. This psychology dictates the character of the theory. And that theory of human nature had been, by Veblen’s time, washed out to sea. Veblen said man’s behavior is determined by the mores principle. People act customarily. What they like is a matter of what they learn to like. If you take wants as given data, you are in the position of judging what man likes by what he likes. A nice pastime, but it won’t solve problems.

5-25:

The theory of value is stressed in the social sciences because the criterion of judgment determines the character of the answers in any choices between alternatives. So economics is essentially a science of the theory of value. The shift from the labor theory to price theories of valuation has resulted in a virtual identification of price and value. The neo-classical position is that price is the only evidence we have of value.

What theory of valuation goes along with the instrumental efficiency theory of value? We have no single unit of measurement. The unit of measurement is different for different commodities. Ergo, for example, measuring energy. We also have no unit in which we can measure the value of a telescope. One’s own experience can be used in identifying the locus of value in the instrumental efficiency theory. Instrumental efficiency is distinguishable from ceremonial efficiency.

In some problems you can “get by” by using other than the instrumental efficiency theory of value, but in problems in the area of the economic process you can’t “get by.”

Disraeli said that being practical is continuing in the mistakes of our ancestors. This is a significant idea. We are admonished to be practical, not to be idealistic and try to make progress.

The peculiarity of the American experience is probably best summed up in the experience of the frontier. That, plus the fact that we’re still close to it, plus the change in the industrial arts, distinguishes us as Americans—makes us what we are. We had to solve problems instrumentally instead of ceremoniously, not that we didn’t try the latter. So we have developed a “mixed economy” more than another. Our mixed economy is not a mixture of isms but means that we have



invented a bunch of institutions. We have found that the isms won't solve problems, but we haven't admitted it yet, partly because we haven't the words for it.

Veblen tried to put this kind of experience into words. He wrote books in which he tried to set forth a theory. First, he learned all there was to know. He accomplished this to an amazing degree. Then he tried to make some sense out of it. He decided that the kind of theory we have had won't solve our problems. The reason is that we don't understand the difference between technology and institutions. The physical means of life determine the character of experience, and it becomes institutionalized through "gradual, cumulative, and unconscious habituation." Persons act habitually; "economic man" does not exist. Man acts a certain way because he learned to act that way, not because of his reason. Man changes his actions because of changes in technology, not through reason. What we mean by the Veblenian distinction is the distinction between technology and institutions. He confused the constitution of an institution (a pattern of habits) with the determination of an institution. They are not the same thing. Nevertheless, he did some important things with his distinction. An example of his contribution is his work on *The Nature of Peace and the Terms of Its Perpetuation.*, a very cogent book.

Veblen thought that institutions and technology are independently progressive. Neither depended upon the other. Institutions come into being through habituation, and they change with something of a consistent sequence. He didn't know just what this sequence was, he said, but some of his students should find out, *i.e.*, write a theory of history. He thought it was economic in character. Men don't act very rationally when confronted with a problem they have to solve, but proceed more or less by trial and error. The received doctrine is not true and is also beside the point. Economic analysis is pre-Darwinian, by which he meant pre-outside-of-the-process directional. Darwin found no direction in the development of the physical species. Veblen found no direction in the development of institutions. All we can do is identify direction in terms of process. It is in terms not of an approach to a particular institutional pattern, but direction in terms of greater economy and efficiency. He was thinking of instrumental efficiency but didn't know it because he didn't know about the significance of science. He thought that scientific investigation was due to idle curiosity, and he couldn't validate it. Individual scientists probably do in fact proceed because of idle curiosity, but that does not mean that science is not significant.

Veblen is perplexing because we can't find out what kind of philosophy he is applying, and he couldn't find out either. He thought that maybe his efforts were at bottom without significance. Perhaps thus the irony in his writing.

He said that the theory we've got to have of the social process (and especially the economic process) has to take the form of a life history of mankind drawn in causal terms. It has to explain behavior in terms of institutions. How explain institutions? Fill in "the warp and the woof" of their development. That's the only way we can find answers to economic problems. Insofar as there are "real" answers, they are found that way. Veblen examined Germany in the light of institutions and technology and was able to describe and predict what would happen. He used his

premise that technology modifies institutions. With the little bit that he had he was able to predict what he did. [Me: i.e. predict World War II.]

Of one thing he was certain: what you've got to begin with is the facts. And he convinced his students of that. What he meant is that you've got to apply a theory to the facts. But he didn't really know it and didn't say so. But all of his students are still counting.

What Veblen was setting up is what the American people have been doing. They have always had a suspicion of the Veblenian distinction. But they never knew how to talk about it. The American system is what Veblen was talking about. The failure of the American social scientists has resulted in a lot of idiotic talk, such as, "Let's throw out this theory and be practical." They discredited theory. Now the social scientists have available to them the correct theory.

5-26:

We regulate all economic enterprise. There is no such thing as "free private enterprise." But we use that term to refer to something that does exist—a privately owned enterprise that is not regulated as to price and service. Public utilities *are* regulated as to price and service. Public utility regulating bodies violate the law every day. They have to in order to perform their function. We have provided no theory by which the ICC, for example, can determine rates and service. They do have a pattern, but it is not that specified by law. They don't use the idea of "a fair return on a fair evaluation," which is the rule specified.

In British law a public utility is an uneconomic organization and can't be regulated; in ours it is an economic organization and is regulated, and not too badly.

In our system the persons who set up the rules for the regulation of public utilities are not the ones who have to solve the problem. That makes it difficult.

Public utilities are not the only institutions we have set up in areas where we needed institutions that don't fit any ism.

Some social scientists have come to hold that there is supposed to be a discrepancy between fact and theory. The physicists know better—they got over that a long time ago. Social scientists sometimes say that we're supposed to confront paradoxes; we have always acted in terms of paradoxes.

5-27:

Continuation of peculiarities in the American economy, both in structure and in theory.

The American contribution has been an attack on the problem involved in solving actual economic problems. So such men as Thorstein Veblen, J.M. Clark, John R. Commons, and C.E. Ayres are trying to get at the continuing factors in the economic process. Veblen started it and made it possible for some of his better students, Handman and C.E. Ayres, to continue with the theory. They were able to discern where you have to look to identify the locus of value. The present stage of the theory has taken only two forms:

1. A recognition of incompleteness and hence a searching out.
2. A theory of common consent as a criterion of judgment, especially at the hands of Commons.

Institutionalism is then in effect a disclaimer of the possibility of a theory of value.

Veblen's less discerning students objected to Veblen's presentation by saying that "it isn't going anywhere." That's the fault of institutionalists. Veblen said, that's right, it *isn't* going anywhere. There is no given pattern of institutions toward which to work. But "where" can be identified in terms other than structure. The institutionalists lost out here. They think of "where" as being an institutional structure. So they slipped back to pre-Veblenian theory and into the classical groove.

Unfortunately the American contributors have stayed behind the theory they tried to advance instead of serving as guides. Now they're doing a little better.

So the American economy has all kinds of institutional structures, which can't be identified in terms of each other. We are thus less inclined to try to solve problems in terms of an ism. When we hit problems that arise out of other problems, we don't know quite what to do. Foreign policy is an example. We don't have a theory, so we act rather ridiculously. So Americans, more than any other people, say, "Let's be practical." They mean by this something different than the British—they mean, "Let's really solve the problem."

There are several major problems.

One is the level of employment. The community has solved the problem tolerably by consciously trying to apply Keynesian theory. It hasn't worked perfectly, so we have tended to think that his theory wouldn't solve the problem. We're right, in that his theory alone isn't enough. When we hit the war, when we really had to *produce*, we said, "To heck with Keynesian theory." We made arrangements with entrepreneurs to produce what we needed—just as we did in the First World War. We didn't like it because it made so many people rich, but we used that plan because it produced the goods. Industry raised costs to increase income whether it raised production or not. So we hit the problem of maintaining a pattern of distribution, about which all we could think of to do was to raise income taxes in higher brackets. We have found no effective way in which to bring about a just distribution of income. We don't know how to increase money wages without making real wages go down. We recognize it as a major problem, especially in war, but we haven't solved it. We don't have the required institutional arrangements, although we have all kinds. We invent them in terms of "expediency." So we have a great many institutional inventions—a very "mixed economy." But this problem of the level of employment has not yet been solved, although the solution is now largely in view. It is a matter of the relationship between monopoly and the level of employment. An increase in effective demand does not necessarily result in increased demand for the factors, as Keynes assumed.

There is confusion in our thinking about competition and monopoly. The Supreme Court sometimes enforces competition, and it sometimes prohibits competition. They don't know what theory they're applying. They try to apply orthodox economic theory, but can't. Whenever the goods aren't being hauled, the decision is made that will permit them to be hauled—under whatever arrangements, monopolistic or competitive. In terms of "How much?" That's the way we've operated. Now we don't want to do that anymore. It is tied up with the problem of the level of employment. We know enough about depression now so that we can

prevent it. And we're now in a situation where we have to work out the theory—the time element in the international situation is too short. We've got to develop that theory. And the peculiar mixture of our economy is a fortunate circumstance in our background.

An aside by Foster in answer to a question: The size of debt is of no concern. What is of concern is the *rate of increase* of debt.... We discovered that the Keynesian theory had limitations in terms of the level of employment. During the war we controlled inflation the best we could, through rationing, appeals to voluntary savings, controls of credit, etc. We *had* to: the M Point. Keynesian theory told us how to get up to it in the level of employment but not beyond. The community still doesn't know what to do. So we accept sixty million as full employment, but estimates have been made that ninety-five million would be willing to work if we set up arrangements that would make it possible. There is a tremendous potential increase in output.

How much unemployment would we as a community tolerate? Maybe four to six million. Then what would we do? We don't know. But we would do some things that we can see, such as change the arrangements we have for providing housing.

Foster predicts an increase in vertical combination. But we can stop it.

5-31:

John R. Commons. He has had much influence on the structure of American economic institutions.

He set up five principles of explanation to determine what he called transactions.

His notion was that economic affairs proceed through intellectual intercourse and in some sense through agreement, what he called transactions. He was looking toward what Veblen had called the quest for the determination of institutions.

Example: price variation. Even that occurs as some sort of transaction between persons. He set out to find the continuing factors and found, from Veblen, that they couldn't be found in an institutional structure. They had to be found in terms of process. But he didn't hold to this very well in his continuing factors.

Commons recently retired from the University of Wisconsin. He did heavyweight thinking for the elder Mr. LaFollette. They formed a sort of team in Wisconsin—remade the government and the University of Wisconsin and did a lot of other things. Commons constantly refused to assume administrative duties in order to pursue his studies. He had an impact on students. They came out with a sort of disdain for theoretical stuff, and yet Commons was trying to make sense out of theory. But he imbued his students with the idea of beginning with the facts, as Veblen had done to him. He did try to get theory straight.

The five principles that constitute the way you should explain how the economy proceeds:

1. Efficiency. (Some persons have come to call this decision-making.) What he had in

mind was the managerial type of decision. The criterion of judgment of the efficiency of a judgment was in terms of managerial transactions—the rate of output per unit of input. He thought of it in terms of process. He never was quite clear as to what was put in and what came out. He finally decided about what

Marshall had said—labor and materials went in and commodities came out. He found no way other than utility to measure both, but he couldn't accept that because of Veblen's fatal attack on it. But he did think it was determined by the technological aspect of management—use-value in engineering terms. He couldn't find a common unit; each thing had to be judged by itself.

2. Scarcity. "Bargaining – transactions."

The rate of proprietary income from other persons relative to the rate of proprietary outgo.

6-1:

Commons did better than anyone has ever done with theory with the explicit notion that there can be none. He thought that there could be no organized theory. He thought that when you tried to make social theory scientific it became unscientific. Orthodox theory all fits together, and human behavior doesn't fit together. That's what's wrong with theory, according to Commons.

Veblen's science is not organized; it's sort of here and there. But as little as it was, it permitted Veblen to operate in predictive analysis. His students weren't as good as he was.

Continuation of Commons' principles:

His principles are remarkably in line with the common sense of the community, which Commons helped in some measure to formulate.

4. (I don't know what happened to principle #3.)

Futurity. In transactions, the dynamic in that process is made up of expectations — a comprehension of what is to happen. Contracts themselves are a specification of the future, agreed upon by two or more persons or institutions. Such expectations are not reciprocations in a given pattern. There is no such thing as a closed economy; there is, rather, an on-going, changing process. The *structure* of economic institutions changes. It is not the *process* that changes, although he sort of convinced himself that it does. He spoke of process, meaning institutional structure.

In this "futurity" attribute, it is only by virtue of disagreement as to expectations for the future that transactions occur at all; if everyone agreed you would hit equilibrium and the economic process would stop. (Shades of Marshall.) The economy works because people differ. This is what permits continuity in the economic process. There would be no corporations, no sales, no capital formation if everyone agreed. There would be no institutions.

5. Sovereignty. "The changing process of authorizing, prohibiting, and regulating the use of physical force in human affairs." It is through this operation that the economic factors are rationed. In orthodox theory this is accomplished through supply and demand; in Commons' comprehension it is accomplished through sovereignty. Humans act habitually, not completely rationally. Commons was prescient of Keynes here—he suspected that capital is an arbitrary decision of sovereignty, a determination of the character of production through sovereignty.

If you want to know how capital formation comes about, find out how sovereignty comes about. Find out how the entrepreneur makes up his mind about alternative choices in the use of the factors. Commons criticized J.B. Clark: the

classical theory of capital formation says that factors are rationed in accordance with economic power. It's a matter of law, who gets what and how much. It works through futurity too—judging the future better than the average (within the rules of the institutions) results in power, and power means discretion over the use of the factors. People come to believe things in accordance with the effect on them.

History is economically determined. At bottom that is control over the factors. The rationing of the factors determines power. And it is a cumulative process. Control over the factors gives power, which gives more control over the factors. Wall St. didn't like Commons very well. He analyzed the extent of their discretion over the factors and told them they were dodging the responsibility that goes with their power. He told them to live up to it or the community would wake up to them sooner or later and spank them. He told them they better improve the economic process.

6. This involves constant compromise, said Commons. This is the most important principle. People must learn to compromise. But the idea of compromise is fuzzy. He said it means that everybody gives up something, and by doing so you solve your problem. And in the absence of a criterion of judgment, this works pretty well. Also, group judgment is better than individual judgment.

We got a lot of our thinking from Commons, and he got a lot of his from us.

*[Note to me: Read Adam's Diary, by Mark Twain.]*

The socialists take exception not to the first of Commons' principles but to the second. There is no way to receive in actual real income the returns from foreign investment unless you have socialism, they say.

When the socialists took power they had the problem of already having built up a favorable balance of trade. All of Britain's arrangements were made in those terms. They have the problem of making market arrangements and connections that will permit them to bring in both goods and foreign assets. They're having considerable trouble. So it seems that the British government is rather naïve in international affairs. The socialist theory is really that of a closed economy. And economies in the world are various. She doesn't know how to get rid of her goods and acquire the goods she needs from a variety of economies. One, she has decided to make arrangements for the export dumping necessity. Two, she also has to make arrangements to get goods for what she produces. She thinks she has taken care of the first, but she can't solve the second. So we have the peculiar anomaly of the British internally acting like socialists and externally like money-grabbers, as they have for centuries. So they are selling automobiles in the U.S. to get dollars to buy goods in an unfavorable market.

6-2:

Commons' theory has served as a sort of explanation of American thinking.

The things that are peculiar to the American heritage are difficult to identify in terms of isms. Commons' theory is also difficult to identify in terms of isms. Therein lies the strength of our heritage, and therein lies the reason for its amorphousness.

Among the items of this scatter that are characterized by the lack of isms are some that should be mentioned as characteristic. They can best be associated with Wesley Mitchell, their maturest spokesman, the co-author of *Measuring Business Cycles*, some statistical devices of which are useful.

Mitchell was one of Veblen's students.

Quantitative analysis, which he sometimes called "analytical description," is the first thing that comes to mind in connection with Mitchell. This is a strong characteristic of American thought in general. Such analysis "provides a systematic account of what is being inductively investigated." In *Business Cycles* he says he studies the actual events rather than orthodox speculations. He seeks to lay bare the relative importance of various factors that enter problems. It is sort of an association by similarity.

Mitchell was always bothered by the distinction between induction and deduction, sort of paralleled by the distinction between theory and practice. He says he sought a balance between the two, "Passing back and forth between hypothesis and observation, each modifying and enriching the other." Theory is to "create order amidst the confused facts of observation." This can be done by statistics. He uses statistical norms, such as arithmetic mean, modal average, geometric mean, etc. Economics will be less concerned with puzzles about economic motives and more concerned with the objective validity of the account it gives to economic process, says Mitchell. But are not motives a part of the economic process? (Foster)

Mitchell made a distinction between practice and theory in some sense in which it is not usually made. The "passing back and forth" between hypothesis and observation is what does in fact happen in scientific analysis. But how can you give an objective account of something without considering motives, when motives determine the thing you're trying to give an account of? If economics is not a social but a physical science, if human beings do not use discretion, if economics is not an institutional science, then Mitchell's distinction is valid. But if economics is a social science, and all the rest, his distinction blocks his entire analysis. His confusion is that which is prevalent in our thinking. Out of this has come the notion that there can be no science of social analysis, that social "science" is, rather, an "art." Mitchell thought that economics is a science but that its analysis had to be restricted to an analytical description of "the run of the facts," not to motives. But what is this explanation, this analytical description, this theory, if it excludes motives? It seems that he has an analytical analysis that denies analysis. He did work very well, however. And in his main field of interest, the business cycle, his theory described human motives. His was an eclectic theory of the business cycle. It is usually said to be that there is no one cause of depressions, that you have to look everywhere. Combine that with his quantitative methodology, and you get something like Mitchell. Then when you get to the explanation of the economic process, you can reject the orthodox view of how decisions are made, but you reach the difficulty of explaining how decisions are made without a motive, or not purposefully.

Mitchell objected to qualitative analysis. He set up statistical measures. But he pointed out that the statisticians can get just as far out of touch with reality, just as abstract, as the speculators who formulated orthodox economic theory.

"Quantitative Analysis in Economic Theory," 1925. [Book or article?] He has elaborated this theory ever since.

He tried to identify the scope of economics. The distinction between evolution and systematic economics. He said Veblen was a little off; you have to have both. They should supplement each other.

Economics is concerned with four kinds of inquiry:

- 1, The continuous process of providing and using commodities and services. He probably had in mind the making of goods--production.
2. The making and spending of money. Everything from family budgets to high finance.
3. Personal interests, by which he meant "dim inner realm of consciousness."

That

of course is to exclude motives, but it would seem to include them. He probably

meant expressed interests common to a number of persons affecting their behavior in the determination of the character of production.

4. Serviceability to the community, rather than individual advantage, etc.

These four inquiries are brought into order through money. It is the fact of money that permits us to make scientific analysis of them. It forces man to be rational. He is forced to make decisions that are calculable. What Mitchell is assuming is the seeking of one's own advantage. Then you can look at the inequality of strength and direction of these decisions. Money makes this possible, giving a common denominator, a way of estimating operations that cannot themselves be looked at.

6-3:

Mitchell is right in thinking that we have to work with the pecuniary accountancy. It is the most fortunate thing we have. The difficulty is in associating pecuniary worth with real value. Mitchell tried for forty years to find a way to determine net national product. He criticized neo-classical theory in Veblenian terms—tautological, teleological, etc. But he never got to what was blocking him, the price theory of valuation. He knew there was something wrong with it, but didn't know what to use instead. Keynes met the same problem and couldn't solve it.

Neither Mitchell nor Veblen ever worked out the theory of value, although Veblen showed where you have to look for it. Ayres was the first to work it out in anything like a definitive form. But Mitchell couldn't even read Ayres. He had the same trouble as the rest of us. He couldn't free himself from initial preconceptions. He couldn't work out the place of price theory in the economic process.

The Russians use a pecuniary accountancy as a tool in the economic process.

They don't have to make decisions in response to effective demand; they arrange effective demand in response to decisions. We do the opposite. However, they do investigate demand (changes in fashion, etc.) in order to make decisions. But we determine demand by looking at the market, which they don't do--ostensibly. In the last analysis, however, they have to look at the market just as we do. In the U.S. the anticipation is ahead of the eventuation. In Russia it is the other way around.

Mitchell became increasingly concerned with finding a way of positivizing the normative aspects of pondering the imponderables. What is the distinction between the normative and the positive? Foster: there isn't any.

The U.S. is less ismatic than any other economy; more nearly mixed than any other. Also in the U.S. there has been developed, to the greatest extent of



anywhere in the world, the technique (in the technological sense) of carrying on the economy. Our trouble has been in the institutional area, as has been the trouble in nearly all economies. The Russians try to use the same engineering techniques that we do. That aspect of the process does not give different economies much trouble. The problems arise the same way in all economies (that is, economic problems arise the same way). In carrying on the process in technological terms we have frequently found, as have the Russians, etc., that our institutional arrangements were not the most effective to permit the use of the technology we have attained. The Harvard School of Business decided to look into this to find out why people don't act the way they "should" to maximize production. They discovered their assumptions, their "unconscious tools," might be faulty. They found out that paying attention to the workers—the prestige element—increased production, so that experiments on music, light, rest periods, vacations, etc., weren't valid. Prestige was the most important single principle in employer-employee relationships. But you can't kid the workers about it.

This holds in communism, capitalism, and any ism. The Russians recognized it, as we do, and decided to make technological accomplishment real economic value, regardless of pecuniary valuation. That involved knowing how to measure economic worth. A very big question. Labor content is no basis for such a judgment—which the Russians found out pretty quickly. They use the same basis as we do: they see what people will buy. They get an opinion poll. So we do the same thing as they, but they praise communism and we praise capitalism. They found that they couldn't make people want what they "should" want. We haven't found out yet—much—because we are so productive we can spend a great deal (forty percent) on advertising without noticing it much. How can this problem be solved? Both Russia and the U.S. are using the utility theory of value.

6-6:

Comparison of isms.

Common features of different isms:

First, the kinds of processes carried on in the economic isms are determined by the state of the industrial arts. It also determines primarily the ratio between the size of the optimum plant and the size of the market in a distributive economy and the pattern in a socialistic economy. And that is both geographical and biological. Such things as the state of transportation decide the distribution of corn. Before railroads, two days' journey was the limit—about fifty miles. Beyond that it cost more to haul it than to raise it. Now we haul it all over, but we still can't haul it more than two days' journey to the railroad. It's the same in Russia as in the U.S.—dictated by the state of the industrial arts, regardless of the ism.

Second, also on the institutional side, communities are coerced in the direction of using those institutional arrangements the product of which is determined by the state of the arts in the industrial sense.

Inheritance is not capitalistic; it is feudalistic. Yet many insist that it is peculiar to capitalism. In any case, the most liberal capitalists insist that we should do away with inheritance.

So both technologically and institutionally the forces are in the direction of compelling the most efficient use of the factors at hand. But the fact that people

believe in isms and in the theoretical validation of isms has a terrific effect on the institutions. We have never developed the habit of thinking scientifically about economic problems. There is thus a distinction between a structure and an ism. A structure is an institution—a way of acting; an ism is a belief. We still think ismatically. We are in the alchemy stage of chemistry. We, like the alchemists, have gathered a lot of data. We have discovered that when we put certain things together, certain other things happen, whether we like it or not. The economist is held in some repute, not because he knows how to solve economic problems but because if he doesn't no one does. The man in the street knows when problems are not solved.

All economies are of necessity mixed. The economic process can be conceived of as a mixture only by virtue of isms. In terms of technology there is only one criterion of judgment. In this sense no economy is mixed. There are economies that are more or less efficient. Sooner or later almost every institutional device comes to be associated with a particular ism, but when you get down to its economic functions it is no more one ism than another. Some institutions are identifiable in terms of ism; others are not. When we get to the chemistry stage of chemistry the isms will disappear. There will be no schools of economics just as there are no schools of chemistry. Chemistry is the same in Germany as in North Dakota. Economics in the scientific sense is also.

6-8:

Fundamentally all of the problems of different economies are the same—in a technological sense. But the institutional phases are the ones that concern economists; we leave the technological problems to the engineers. Everyone of necessity is concerned with the institutional aspects because everyone is a part of institutions. Everyone is concerned with technological problems also but only in the sense that he must choose the persons best qualified to do the job at hand.

When we try to solve an economic problem we are trying to arrange the institutions so that we can make optimum use of the factors of production. The capitalists try to do that; so do the communists. But all economies are of necessity mixed. The criterion of judgment lies in the provision of the actual means. The problem takes two shapes—or there are two economic problems: (1) the character of the means of life: and (2) the quantity of the means of life.

In consideration of those two problems we have habitually thought of the actual provision of the means of life as coming out of the ism. Our newspapers, for example, say that our progress is a result of capitalism. The Russians say even more loudly that their progress is a result of communism. Fascists likewise. All isms are teleological.

We have got isms all mixed up with other things, such as democracy. Many think that capitalism and democracy are interchangeable. But capitalism can exist under an absolute monarchy, and it has done so. Democracy and an ism are not the same thing. But in the cold war both sides claim identity between their ism and democracy. That is because democracy has won the thinking of the world; it has won the day. So the victor of the cold war will be the one that can convince the other that he is the most democratic.

It has occurred to some that our progress might be due to the democracy that we have had rather than to an ism. The democratic process is apt to bypass isms. You could probably look at the degree of mixture and find it more or less conforming with the degree of efficiency.

The democratic process is not an ism. It prescribes no particular institutional pattern. Voting may be the least democratic thing there is. An examination is better than voting in determining who should build a dam. It's more efficient. But voting is the best device we have found for determining fundamental public policy. We have been developing along the representative type and centering it more in the executive, to the lament of many. But it is because we have been finding out that we can get more done that we want from the president than from the Congress. The president can't pass the buck. It's a pretty efficient device.

The popular determination of policy can eventuate in many ways. Capitalism lays claim to eventuating in the popular determination of both the quantity and the character of production, by "voting with dollars." You demand a certain product in the market, and it is produced. So capitalism is democratic. Free buyer, free seller, open market. If you have a great many dollars it means that you have contributed a great deal to the community. This discretion is exercised in proportion to contribution. Socialists say that you should vote on production as persons, not as dollars. The co-op movement is halfway in between: (1) you receive in proportion to your contribution, and (2) you determine policy as a person. In a corporation it's all on one-side—you receive in proportion to your contribution and you vote the same way. The Fabians say that they're both wrong. Man should determine political and economic policy as an individual, and he should receive the same way. The determination of production should be political, according to them and to the communists.

There is no synonymy between democracy and an ism. An ism specifies the institutions. Democracy does not. It eventuates in all kinds of institutions.

The Brannan Plan is being disparaged as subsidy, socialism, etc. It is unjust because someone gives something to someone else. The farmer, comprising 17% of the population, feeds everybody; he is subsidizing the nation. What's the alternative cost between eating and not eating? What's your food worth? We subsidize you, and we need a subsidy. This plan, the Brannan Plan, is being considered by the American people. It's being aired in the newspapers, on the radio, and on the street corners. The Americans will make up their minds on it. The Brannan Plan could be adopted in any economy—communistic, fascistic, capitalistic.

The fact of an ism cannot preclude a mixture. But the secret of a solution to a problem is the democratic process. It is more to adopt a plan that will feed its people than is some other process. A dictator of the Supreme Court wouldn't be so apt to. The people ought to run the place. At bottom the problems are pretty simple.

6-9:

Institutions perform both kinds of functions, and the two may or may not be incompatible. One can be inconsistent but not paradoxical. We do not live in a world of paradoxes.

Reason is necessary in solving problems. We use reason there. Most of the time we act habitually.

What is a mature economy? The concept is nonsense. Usually it is used to mean that the institutions that have been growing up assume a dominant pattern. When that system of institutions meets difficulties in providing the means of life it is "mature." When the problems get really rough it is in old age. But how can you view institutions in stages? If you included technological aspects you might be able to speak meaningfully of maturity. For example, in speaking of the use of mass production methods.

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