Economics, Power and Culture

Essays in the Development of Radical Institutionalism

James Ronald Stanfield

ECONOMICS, POWER AND CULTURE

Also by James Ronald Stanfield

ECONOMIC THOUGHT AND SOCIAL CHANGE

THE ECONOMIC SURPLUS AND NEO-MARXISM

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Palgrave Macmillan

ISBN 978-1-349-23714-2 ISBN 978-1-349-23712-8 (eBook)
DOI 10.1007/978-1-349-23712-8

Softcover reprint of the hardcover 1st edition 1995 978-0-333-59485-8

 For information, write:
Scholarly and Reference Division,
St. Martin's Press, Inc., 175 Fifth Avenue,
New York, N.Y. 10010

First published in the United States of America in 1995

ISBN 978-0-312-12208-9

Library of Congress Cataloging-in-Publication Data
Stanfield, J. Ron, 1945–
Economics, power, and culture : essays in the development of radical institutionalism / James Ronald Stanfield.
p. cm.
Includes bibliographical references (p.) and index.
ISBN 978-0-312-12208-9
1. Institutional economics. 2. Radicalism. I. Title.
HB99.5.S74 1995
330—dc20 94-27905
CIP

For my granddaughter, Cassandra Tama,
and her generation:

May the times be a-changing for the better

Contents

Preface

Although the essays that follow have been edited to eliminate duplication and temporal matters of no continuing interest, I have in the main resisted the temptation to revise in light of later work. I have only very occasionally added a reference to work of my own or others that clarifies or elaborates the point at hand. My reluctance to revise in any more important manner stems from this being a chronicle of sorts; extemporizing would detract from that purpose.

An important exception is my use in the following of the term *radical institutionalism.* Tilman (1984) has distinguished liberal and radical strands of institutionalist opinion. I had referred to myself since around 1970 as a Marxist-Institutionalist, and I definitely interpreted institutionalism in a radical vein. I discuss the meaning of the term radical in Chapter 11 and the whole of Part Three addresses the relation between Marxism and institutionalism. I was unaware of the radical institutionalist term until the late 1980s when Bill Dugger began to use it to refer to the group that had assembled more or less under his unofficial deanship. Barry Clark used the term about the same time to refer to me along with Doug Dowd, Dan Fusfeld, and Marc Tool (B. Clark, 1991, p. 65). While immensely flattered at being placed in such company, my first reaction was that the term is redundant. I have since yielded to others on the matter. Hence where I think clarity is served by the distinction I have inserted the term in the chapters to follow.

Institutionalism becomes radical when the cultural, behaviorist emphasis is used to address the issue of the self-authenticity of the preferences individuals exercise in the choice model. Radical institutionalists here build upon an ample tradition within their school (Dugger, 1989a). Veblen's scathing examination of invidious consumption rivals Marx's commodity fetishism in driving home the point that efficient monitoring of individual preferences is only as valid as the authenticity of those socially formed preferences. Galbraith (1958, 1967, and 1973) has underscored this theme in his trenchant trilogy on the nature of contemporary American capitalism. Ayres (1962), Tool (1979), and Dugger (1989b) have also emphasized this fundamental problem with the notion that price equals value (Chapter 10). Not surprisingly, in their efforts to construct an effective critique of the conventional theory of choice, radical institutionalists have recognized the insights of the Marxist-inspired critical theory in addition to those of the institutionalist tradition (Chapter 6; Brown, 1985; Tilman, 1968, and with Simich, 1980; Benton, 1987).

After a brief introduction, the essays in Part One examine these issues in terms of the epistemology of economics. Chapter 1 is especially pivotal in my view. It represents for me a culmination of my gropings to the late 1970s and the foundation to my gropings thereafter. The problems of legitimating power and the social construction of consciousness (Chapters 4, 5 and 10) flow into the essay; the diagnosis of the crisis of the neoclassical synthesis (Chapter 3), the discussion of consumer craft knowledge (Chapter 6), and the cultural crisis of late capitalism (Chapter 13) flow out of it. Likewise the task of demystification broached in a 1978 essay and elaborated in a later one (Chapters 11 and 12) flow into and out of this essay. Hence, the essay may also be viewed as an addendum to my book published in the same year (Stanfield, 1979). The essays in Part Two examine contemporary economic institutions and those in Part Three the conjoint roots of radical institutionalism in the Marxist and institutionalist traditions.

JRonS

Acknowledgments

Special thanks are due to Bill Dugger and Ron Phillips. Without their encouragement I probably would not have undertaken this project, nor indeed much else besides. Their unflagging support of so much of my work has been a constant source of inspiration and reassurance to me. Thanks also to Kirsten Jasek-Rysdahl and Kellie Poyas Newhouse, who provided crucial assistance in manuscript preparation and editing. As always and evermore, the staff of my life remains my wife of twenty-five years, Jacqueline Bloom Stanfield.

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Parts of this chapter were published in a similar paper in Alfred S. Eichner (ed.), *Why Economics is not yet a Science*, by M.E. Sharpe, whose permission to reprint is also gratefully acknowledged. Chapter 13 is reprinted from the *Journal of Economic Issues* (1989) by special permission of the copyright holder, the Association for Evolutionary Economics. An earlier version was published in William Dugger (ed.), *Radical Institutionalism*, by Greenwood Press whose permission to reprint is also gratefully acknowledged.

Introduction: The Nature of Radical Institutionalism

The difference is a difference of spiritual attitude . . . , it is a difference in the basis of valuation of the facts for the scientific purpose, or in the interest from which the facts are appreciated.

Thorstein Veblen, 1898.

The hedonistic conception of man is that of a lightning quick calculator of pleasures and pains . . . He has neither antecedent nor consequent. He is an isolated, definitive human datum.

Thorstein Veblen, 1898.

Institutional economics – or social economics, an expression used synonomously in all that follows – is significantly different from more conventional economics in its *scope, method,* and *significance.* The *scope* of conventional economics, conceived as the science of choice, largely consists of examining the allocation of givens to givens to attain the maximum real income (Stanfield, 1986, ch. 2). Human wants are axiomatically infinite but their substance does not form part of the subject matter of the discipline; they are given. Resources are axiomatically finite and their substance generally does not entertain the economic theorist; they too are given. Thus equipped with wants and capacities to earn incomes with an eye toward want-satisfaction, the abstract human individual is the starting point of the analysis. Rationally disposed, individuals recognize the advantages of exchange; hence division of labor is generated by their rational 'propensity to truck, barter, and exchange.' Under certain conditions this propensity results in the maximum flow of real income possible given the resource budget constraint and the distribution of preferences and resource endowments.

This characteristic microeconomic scenario is modified in applied work and more descriptive information is utilized; but the axiomatic problematic is seldom fundamentally breached.

Even the concern for macroeconomic stabilization is generally of a sufficiently short-run character to reside within this framework. The focus is then to secure allocation of resources that are presently available but unused. Growth theory and the theory of technological change deal palpably with changing resources but here too the tendency is to fit the subject matter into the static maximization model of individual exchange.

For institutionalists, the problematic is different in thrust and scope. The wants of individuals and the resources available for application are part of the variables to be explained. Human wants do change and technology changes, thereby redefining and remixing the menu of available resources. Wants and technology do not change randomly, nor by virtue of some natural law working without human agency; they change by virtue of influences that are endogenous to the human social system. Since the human social system is fundamentally a system of *power* and *habit*, these changes emerge from the exercise of power and habit. To the extent of their power, individuals, teleological by nature, acting alone or collectively, pursue ends that refer to their habitual inclinations by use of means that are given by these same inclinations. Inventions and innovations occur as habitual ways and means are frustrated. New wants and new means flow from these innovations.

Institutionalists insist that theoretical and empirical examination of the social process by which these changes occur is essential to the comprehension of the economic activities of any human group. The changes in the wants and resources and the social process from which they derive form part of the variables of institutional analysis, in contrast to their exogenous, parametric status in more conventional economics. The institutionalist problematic is then to examine these changes with an eye to their effects upon the flow of real income. Of particular concern is the process of *institutional adjustment* that these changes set in motion. Human society is holistic and interdependent; changes, especially those involving the technology by which the species necessarily reproduces itself as a set of material creatures with socialized behavioral patterns, ramify throughout the system. Technical advances raise new issues of individual behavior, law, ethics, policy, education, and so on.

Here it is customary to invoke Veblen's celebrated dichotomy between the instrumental and technical practices by which humans make a living and the ceremonial, institutionalized patterns of authority and status within which they live. Some of those with power and status may resist changes that threaten power and status; but just as surely others with power and status are likely to be maneuvering to initiate changes felt likely to result in augmentation of their relative ranks. Change is seemingly irresistible but it brings in its wake problems of maladjustment in the face of inertial ignorance or dedicated resistance from those with vested interests in potentially obsolete ways and means. Such institutional maladjustment can have dramatic consequences for the flow of real income.

The *method* of institutional economics differs from the conventional emphasis upon testing Ricardian hypothetical-deductive generalizations in Comtean positivist fashion. Testing hypotheses empirically is a part of the institutionalist method but there are differences in recognized procedures and additional considerations. Institutionalists, given their broader scope of analysis, rely less heavily upon sophisticated econometric techniques which they consider inapplicable in the face of the contemplated changes under examination. Instead institutionalists rely on the *comparative method* developed by anthropologists to collect information and pursue generalizations about the economic activities of human groups (Arensberg, in Polanyi et al., 1971; Stanfield, 1986, ch. 3). Institutionalists tend to rely more upon examination of qualitative empirical information of a historical and cultural nature and upon descriptive rather than inferential use of quantitative information. These differing tendencies likely inhere to a large extent in the differing scopes of the two approaches but no doubt there is an element of historical accident in the personalities of those attracted to each. Institutionalism, understaffed and undernourished, languishing for half a century in the disciplinary underground, may be underdeveloped and underformalized. Or, conventional economics may be prematurely and unproductively formalized (Chapter 3).

Institutionalism contains another element of method that is at least more explicit than in the more conventional approach; this is its insistence upon the instrumental validation of economic knowledge. Institutional economics is bent upon being an economics of control; its variables must therefore treat the malleable 'streams of tendencies' that are threaded through the human life process as related to the task of economic provisioning (W. Hamilton, 1974; Lowe, 1966). This instrumental or praxis test (Eichner, 1983) is an indelible imprint of the pragmatist legacy of institutional economics. Economic theory must be aimed at explaining and predicting the behavioral interaction of variables that include instrumental or control variables that can be manipulated in the interest of programmatic institutional change (Stanfield, 1979, ch. 9). Hence the method of participant observation is also a key element in the make-up of the institutionalist economist. Idle curiosity notwithstanding, social science is not practised and socially funded for its intrinsic value *per se* but for its contributions to social policy. Social reform merges into social science in this purview (Tilman, 1987). Accordingly, institutionalists do not posture themselves as value-free social scientists; for them economics remains a moral science (Cochran, 1974).

The *significance* of the institutionalist approach is that its evolutionary emphasis introduces social change and therefore power and culture into the analysis. Treating human wants and technical capacities as variables introduces analysis of the manner by which they evolve. This necessitates examination of the power structure from which choices flow as to the allocation of the economic surplus, society's fund for social change (Stanfield, 1992b), toward expansion of society's heritage of knowledge and technical acumen. Social forces determine the financing of alternative research and development efforts and the incorporation of their results into innovation and expansion of productive capacity. Likewise social forces determine the financing of voices that contribute to the cultural mileu which provides the framework of perception and interpretation of social life. Such issues cannot be addressed without attention to the issue of power and life chances that structure differentiation of citizen input into these discretionary processes.

Such an effort is to some extent radical *per se*, in that it undermines the habitual denial of power by the market and pluralist ideology (Chapters 4, 5, and 11). But the radical institutionalist re-viewing of the context of economic problems goes much further (Dugger, 1989a). Radical institutionalists find considerable evidence that powerful corporate interests dominate politics, culture, and economic processes. (In addition to all that follows see Galbraith, 1973; Tilman, 1987; Dugger, 1989b.) For them, the phenomena of administered economy and society necessitate radically new institutional responses if the political economy is to be reformed to operate more effectively in the service of humane social values.

The significance of institutional economics is thereby extended by radical institutionalists who seek to incorporate into their analysis the critical theory inspired by Marx (Chapter 13). Marx insisted upon the socialized individual in sharp distinction to the classical political economists who tended to universalize bourgeois personality (Marx, 1973). This is a great strength of Marx's analysis since it establishes that the human personality as a social character that was once different could therefore be different again. This undermines the institutional fixity that is the bulwark of capitalist ideology – as in 'you cannot change human nature.' Radical institutionalists use this insight and the concern for capitalist class/corporate hegemony in examining the nature of contemporary capitalism.

This raises fundamental questions that are obscured by the conventional approach of taking extant preferences and capacities as givens. The conventional approach in effect takes as given the status quo: if wants and resource endowments flow from a process of socially structured inequality, this inequality is perpetuated by an approach that takes these matters as datum for purposes of analysis (Chapter 1). Radical institutionalists insist instead that the issue of socially-structured inequality be addressed, especially as concerns the ambiguity of wants, costs, and the duality between the public and private sectors. Allocation of resources to meet the current pattern of wants is only as good as that pattern, which pattern in turn is only as good as the structure of power from whence it issues (Chapters 6 and 10). Costs of production cannot be taken to represent necessary supply prices or opportunity costs in any transcendent sense if they are seen to result from the social process: these costs too are only as good as the differentially important perceptions from whence they stem (Chapter 4). The sharp duality between the public and private sectors loses much force if the business world possesses instruments of authority and persuasion that are tantamount to governing force. This administered society hypothesis raises issues of fundamental institutional reform that militate toward a large measure of social control of corporate practice and toward a very comprehensive assault upon barriers to popular participation in political processes. These include greater social auditing of corporate behavior, citizen input into corporate decision-making, some measure of national economic planning, reduction of corporate cultural influence, and aggressive extension of the social welfare state complex (Galbraith, 1973; Bowles et al., 1983; Stanfield, 1991, pp. 776–7).

Although much of this reform package is very similar to Marxist socialist proposals for collectivization of the means of production, radical institutionalists tend to be wary of the teleological aspect of some Marxist thinking. The concept of the socialized individual is not only a great strength of Marxian analysis but also its Achilles heel. Given demonstration that the human personality was different in the past and therefore could be different in the future, there is a tendency to accept too readily the further proposition that human personality can be expected to have or maneuvered toward a pattern that matches the needs of a collectivized economic order. Such thinking obscures the concrete question of integrating the division of labor in the social provisioning process. Radical schemes for reconstruction of society are 'worthless unless they consider the underlying substratum of human nature from which socialism . . . will have to draw its energy; unless they describe the main institutional means by which these energies will be shaped and channelled . . .' (Heilbroner, 1985, p. 207). At the very least the notion of a transitional era of crude communism such as Marx envisioned raises difficult questions of motivation, co-ordination, and legitimation of the leadership vanguard. Moreover the problem deepens if the urge to dominate and exploit one's fellows is more obdurate than is maintained by the concept of the wholly socialized individual. If extended childhood dependency renders this propensity a more or less permanent feature of the social landscape (Heilbroner, 1981), à la Veblen's predatory bent or acquisitive instinct, then the liberal agenda for checking and balancing political power and maintenance of the inviolate liberal sphere of individual freedom become crucial considerations for the construction of the good society (Stanfield, 1992a).

The above considerations suggest the title of this volume. Institutionalism, perhaps especially its radical variant, is highly critical of the legacy of conventional economics, insisting that the economic process requires reinterpretation from a wider and more substantive perspective (Stanfield, 1986). The effort to bring about this re-viewing of political economic phenomena is indeed centrally focused on the pervasive issues of *economics, power, and culture.*

Part One
On the Epistemology of Economics

Much of the appeal of the market, to economists in particular, has been from the way it seems to simplify life. Better orderly error than complex truth.

J.K. Galbraith, 1967

It is better to deal imperfectly with that which matters than to gain virtuoso skill in the treatment of that which does not matter.

P.A. Baran, 1969

Why must we reject being vaguely right in favor of being precisely wrong?

A.K. Sen, 1985

1 Phenomena and Epiphenomena in Economics[1]

The persistence of a way of thinking which somehow fails to take account of what are proving to be the basic realities of modern economic life is itself one of the great economic mysteries of our civilization.

C.E. Ayres, 1944.

Conventional economics is preoccupied with the sphere of exchange to the neglect of the sphere of production; this is tantamount to preoccupation with economic epiphenomena to the neglect of the underlying phenomenal structure. This exchange emphasis is largely responsible for the current crisis in economic thought in that it renders conventional economics incapable of responding to the comprehensive impasse of democratic industrial society.

THE LIMITATIONS OF THE SCIENCE OF EXCHANGE

At least since Adam Smith declared that 'division of labor [economic progress] is limited by the extent of the market,' conventional economic thought has been preoccupied with the sphere of exchange. Its central and virtually sole focus is on the exchange process which results from a *given* structure of preferences, capacities, habits, and technology. Empirical analysis of this structure, and especially its changing character, has been accorded very little attention. Supply and demand in a competitive milieu are said to establish a set of relative prices which serve to guide economic behavior. The relative values established in exchange predominate in any orthodox

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economics discussion. The amount, organization, and distribution of production are said to be determined by the relative prices in product and factor markets. Virtually all meaning in economics, in the mainstream view, derives from exchange.

The predominance of the exchange focus severely limits the scope and method of conventional economic thought. Taken by itself, the exchange focus is severely misleading as to the actual structure and operation of the economic system. This flows from the simple fact that much of critical importance to the economic process is hidden or obscured by the exchange view. Reference is to the underlying structure already mentioned. A few examples should suffice so long as it is kept in mind that a very broad range of phenomena are included in this underlying structure.

Consumer preferences offer the most obvious example. The conventional economist emphasizes nothing so much as the sovereignty of the consumer, whose preferences are revealed and monitored in the exchange process and provide the ultimate sanction for its results. Nonetheless, the conventional economist is generally content to assume preferences and is seldom if ever moved to investigate empirically the formation and implications of consumer preferences. The factor market offers another important example because it is not the consumer but the household that is sovereign in the conventional paradigm. The household reveals not only consumer preferences but also producer or factor preferences. Occupational choice and deployment of productive wealth are as important as consumer preferences to the choice and sovereign household model, for relative prices reflect both kinds of household preferences. Producer preferences receive no more structural attention than do those of consumers. Indeed, the droning focus on household sovereignty effectively discharges any need to examine power in the business enterprise. (See Chapter 4.) The question of productive capacities is given some attention in discussions of capital accumulation, human capital formation, and natural resource exploration. However, there is much more to the story than is captured by these discussions. The economist seldom addresses the basic issues of the distribution and formation of productive abilities and assets. With respect to labor, these include not only formal education, which receives some attention, but also childhood environment, nutrition, communications media, and so on. The distribution and source of capital are almost taboo topics, or so it would seem among economists. Indeed, the general area of class and wealth distribution structure is slighted. The questions of factor and consumer capacities and competencies are almost completely neglected in the orthodox view. Scitovsky (1977) is perhaps an exception but he seems to depart explicitly from orthodoxy.

The root of the matter can be best explained via the methodological concept of typification, that is, ascertaining those facets of a social phenomenon which form its *differentia specifica.* Social science proceeds by laying out the phenomenal characteristics which are expressly definitive and which set one phenomenon apart from others. The typological characteristics of any entity are those without which it would not be itself. By the same token, generalization is the scientific process of classifying together those phenomena which do satisfy a given set of criteria. The process of differentiation and assembly or classification is incessant; it is the tinkering of the scientific craftsman.

With this in mind, the central task of economics would be to seek the relevant characteristics appropriate to given economic phenomena. First and foremost, this method would demand a working characterization of the economic actor. This can be called *economic character.* Economic characterization identifies the traits which are significant to the economic process in a particular context. What are the characteristic personality traits of a business manager or a consumer? What is the general cultural pattern?

This is of the utmost importance. Economics approaches its study without attempting to develop and empirically test a characterization of economic actors. It has traditionally skirted this task by *assuming* economic man. No doubt there is much to be gained by positing this ideal type, but there is more to economic science than using an ideal type to compare 'with empirical reality in order to establish its divergencies and similarities' (Weber, 1949, p. 43). Involved is the distinction between pure economics and economic science as a whole. As Weber (1949, pp. 43–5) noted, the former makes use of ideal typical assumptions that are not expected to conform with reality and enquires about human action under these restrictive conditions. But for Weber the task of scientific economics does not stop with pure economics; a social economics is also required that examines the interaction of economy and society. (See also Polanyi, 1968; Parsons and Smelser, 1965.)

The point is that economics has been preoccupied with analysis based on the ideal types of economic man and perfect competition. As a result, economics has largely neglected an associated and important task of empirical typification and the tinkering with alternative ideal types. The importance of the effect of the economy on character was recognized by Marshall (Parsons, 1931, pp. 101–40). Boulding and others have suggested additional types and have developed the concept of grants economics to study them. There is also much to learn from ideal typologies which de-emphasize self-aggrandizement and focus on altruism, paternalism, solidarity, and reciprocity. The lead given by economic sociology, in which rationality is an institutionalized value rather than an assumption, should also be pursued (Smelser, 1976).

The importance of economic character formation becomes evident if society is viewed as an evolving process. The business of society is social reproduction. This involves the production and, in modern times, exchange of goods and services. But this is not the end but the means of society. The primary objective is the *production of people* – physiologically, instrumentally, aesthetically, and ethically. The economy is one aspect of society and its proper concern is the economic aspect of social reproduction and production of people. Economic character, in contrast to economic man, is a dynamic historical concept which is suited to the view of the economy as one aspect of a total social process. Society is never reproduced identically. Social change is incessant, sometimes subtle, then blatant. Economic character is likewise an evolving process. The individual's preferences, capacities, and habits change on many axes ranging from individual aging or life-cycle development to overall social change.

As with almost all change, the evolution of economic character and social reproduction is not entirely synchronized. Questions arise about how the individual economic character fits into the social context. I refer to such phenomena as preferences for products which no longer exist, skills which are obsolete, living in an area which no longer has employment opportunities, and so on. Also involved are questions about the consistency of social trends with the concept of the individual – does society any longer have room for the iconoclast, the entrepreneur, the rugged individual, or the different drummer? Can a place be secured for these character types and for those more interested in security, stability, tradition, and community? What is the optimal balance between adventure and security?

The mainstream focus also fails to engender an adequate theory of power and social relations. Given the exchange fixation, social relations are conceived solely as exchange relations. Hierarchy and dominance, which are critically important to the organization of modern industry, are neglected. As Marx (1967, vol. I, pp. 71–83, 176) noted long ago, commodity fetishism and the emphasis on the sphere of exchange obscures class relations in the sphere of production and the cooperation among workers. People in a commodity production society view relations in terms of commodities, not people. People habitually see their need for money to buy commodities rather than their need for each other. The economist's toolkit fails to penetrate the commodity veil and demystify the underlying socioeconomic relations.

The distortion of power is especially important since power is the basic energy of the social system. Not surprisingly, the conventional economics perspective treats power as market power – the ability to influence the price of the commodity one sells or buys. But this neglects a vast area of power – the influence over political decisions and the formation of preferences and values. A complete theory of economic power would focus on social reproduction and the formation of economic character. Once again, such a focus is of pivotal importance. Power is exercised through influence in this incessant process of social reproduction. Economic power is the ability to influence those character traits and social relations which are significantly in the structure and working of the economic process. Everyone exercises some influence over this process, and there are myriad bases upon which influence rests. Differential influence is the content of social stratification.

The orthodox paradigm is also wedded to an inferior view of the social and ecological context of human existence. The utilitarianism and extreme individualism which are typical of the mainstream neglect the fundamental sociality of human existence. This it can do because exchange takes place among individuals upon whom the social process has already been at work. The assumption of economic man and the postulation of given preferences and capacities effectively discharge the need to examine the process by which economic character is formed. Individuals do indeed exchange, but only societies produce, and individuals are the most important part of what societies produce. The analytical strategy of emphasizing the economy as a material process cannot avert the necessity to examine the process which underlies economic character. Emphasis on human sociality would also improve the ecological facet of economic thought. The social human is clearly a creature of nature, an entity between beast and god, to be sure, but still subject to the laws of natural process. The social human is embedded in the tissue of material or natural process. The natural environment is therefore a habitat, a cradle of life which is very much a part of life. In contrast, the mainstream view offers only a cormorant consumer and a one-sided, utilitarian conception of the environment. (See Chapter 2.) The exchange focus degrades social as well as environmental relationships. Human relations become utilitarian and functional, and the broader reaches and more profound significance of human interaction are obscured. Hence, the catallactics perspective obscures and mystifies the two essential dimensions of human existence, the tissues of material and social process. The remainder of this discussion will be devoted to demonstrating that this neglect of materiality and sociality underlies much of the current malaise of economic thought.

THE CURRENT CRISIS OF ECONOMIC THOUGHT

The limitations just discussed prevent the orthodox economics perspective from coming to grips with the current cultural impasse of democratic industrial society. Indeed, the incomprehension due to the mystification and obfuscation of the exchange-centered approach is a mirror image of the confusion underlying the current cultural crisis in general. Three important problems of the democratic industrial societies can be used to elaborate this argument.

The relationships between *human needs* and commodities are complex and dynamic, and they currently display considerable *ambiguity* and confusion in the democratic industrial societies (see Chapter 6). This is manifested by the neurotic composition of output and the obscene degradation of the natural habitat. The neuroses endemic to a sick society are played upon and exacerbated by the pitchmen of Madison Avenue. As the output of dubious commodities steadily expands, the natural environment is degraded and denuded. Those imbued with critical consciousness who alter their habitual conformity to this pattern encounter a serious obstacle in that they lack the requisite knowledge to carry through and realize their desire to reorient their lives radically. The modern commodity production system is geared to mindless consumption. Galbraith has labeled this tendency 'organized bamboozlement,' a turn of phrase which is expressive, even if a mockery, of the very serious phenomena in question. Bookchin long ago raised a finger toward the perilous drift to a 'synthetic environment' and a 'flatulent consumerism.' Leiss (1976) has provided a remarkably cogent discussion of this problem, introducing the issue of consumers's *craft knowledge* in the 'high-intensity market setting.' Product marketing operates by the association of commodities with felt needs, and it is not a matter of particular concern in modern industrial society whether or not the commodities bear any reasonable relation to those needs.

The phenomena in question extend far beyond the sphere of consumption as that category is commonly understood. The roots of the problems are found in the estrangement of the individual in modern society from the two essential dimensions of the human life process, materiality and sociality. There is a genuine human need for work – the imaginative and purposive application of the human character to the transformation of nature. Work is here meant broadly, obliterating the common pecuniary dualism of work (income earning) and leisure (income spending). (See Chapter 12.) Knowledge of the material world, the techniques to apply the knowledge, and the imagination to do so creatively are all part of the work process. The production and consumption dualism is obliterated because human consumption is as much a technological and imaginative process as is production. Consumption, in this view, is as much a process of suiting the material world to human needs and purposes as is production. Intelligent consumption requires knowledge of the characteristics of the human beings and commodities involved. Judgments must be made on the appropriateness of the commodities to the human needs and scarce resources available. Rational consumership is a mere academic exercise in logic without this technological competence, that is, rationality can be substantiated only by competent consumership.

This competence is an empirical question, and there is considerable doubt that it is prevalent today. It is apparent that individuals in the advanced industrial democracies know little about the natural environment which serves to substantiate their material ways of life. This estrangement is further complicated by the inadequacy of individuals' knowledge of themselves as material and social beings. Imperfect knowledge of their bodily dimensions is but another form of estrangement from nature. Their emotional and psychological dimensions are obscured by their estrangement from their sociality and from themselves, since they are material and social entities. Quite apart from the inadequate knowledge of the material properties of commodities, consumers are malinformed as well of their needs for each other and the rest of nature. This means that a pervasive ambiguity exists concerning what constitutes a set of material properties of commodities appropriate to the human purposes at hand.

In general, the individual in the industrial democracies is unable to experience the rich sensuality of material and social life. Without this profound dimension – and work is its primeval and ultimate foundation – the moral, aesthetic, and instrumental concerns of people lack substance, structure, meaning, and boundedness. Such a state is neither natural nor human. The result is anomie, cynicism, frivolity, and other manifestly neurotic patterns of behavior. Life's decisions lack consequence, and conviction is ephemeral. Humanity is a self-exiled species from its natural and social habitat – in a word, lost.

Another set of phenomena critical to an understanding of the nature of the democratic capitalist world economy may be labeled *uneven development*. In myriad instances running the spectrum from the individual to the global capitalist economy, there exists one-sided, disproportionate, and lop-sided development (or underdevelopment). Consider the individual and the division of labor in a capitalist economy. The social or occupational division of labor which antedated capitalism has been intensified to such a degree as to constitute a difference in kind. The capitalist mutation of fragmented labor is qualitatively a phenomenal configuration different from the social division of labor from which it sprung. The pre-capitalist craftsman possessed a general competency in the productive science and technique of his occupation. Human work, both its conception and execution, was integrated in the knowledge and skill of the craftsman. The logic of capitalism progressively fragments and disintegrates the work process (Braverman, 1974).

The underlying logic, which in turn derives from the profit calculus and the social relations of production, can be seen from the degradation of labor and the emergence in capitalist industry of a new middle class of scientists, technicians, and professionals. The logic of pecuniary efficiency generates the degradation of labor since the pressures are incessant to reduce labor cost. One implication of this quest is continuously to subdivide labor operations so that work is performed with the minimum of necessary skill and compensation. Also involved are the dynamics of class relations and control of the production process. The intensification of the division of labor increases the dependency of each individual laborer upon the pool of social labor as a whole. The capitalists hold the keys to the social engine of production. Therefore, the fragmentation of the labor process increases the dependence of the working class on the ruling class. This (alien) control of labor enables the capitalist to discipline the work process toward the goal of capital accumulation and lessens the opportunity for the working class to challenge the authority of the capitalist class.

The production process which is actually executed by labor is reproduced symbolically and the hand and brain of production are separated. Labor is degraded because the cultural heritage of scientific and technical knowledge is stripped away from the immediate producer and reposited in the symbolic economy of control. The symbolic economy long ago outgrew the capacities of the captains of industry and finance, necessitating the rise of a new middle class to operate the symbolic economy and control the material economy. This class, too, is fragmented in its activities and ultimately dependent upon the capitalist financial nexus. Thus, the hand and brain of production, the manual and the intellectual worker, are dichotomized and subjugated to the interests of capital accumulation and the expansion of commodity production.

The result of this fragmentation in terms of the individual is one-sided development. Devoting a career to one small aspect of a given industrial process tends to cripple the all-round development of the individual. This one-sidedness is revealed not only in the socialization and training of individuals in specific occupations, but also in their everyday non-working life. The household becomes utterly dependent on expertise due to technical and institutional factors. Technically, the instruments of consumption become more sophisticated and specialized; institutionally, psychological predisposition and legal considerations induce a reliance upon expert opinion. This is, of course, also a result of the degradation of craft knowledge in production and consumption already mentioned.

Uneven development also is manifested in the problems of economic instability. Disproportionalities develop between productive capacity and consumptive capacity, between resource utilization rates and extraction or storage capacity, and, in general, among the various industries. One-sided, disproportionate development among economic sectors is the root of the instability problem. It is also the root of the dual economy – the metropolis–hinterland dichotomy in less developed countries and the market–planning dichotomy in democratic capitalist economies. The issues of equity and socioeconomic justice also come into play. Uneven development is seen in the inequitable terms of trade established among economic sectors, social classes, or nations.

There is also a spatial dimension to uneven development. Population and economic activity are spatially concentrated; countries and regions are overdeveloped and underdeveloped. Congestion and emptiness coexist. Urban centers decay and become barren as suburbs grow in a leap-frog pattern. Uneven development is also manifest in ecology. The use of particular resources or habitats is excessive or scant. The dependence on the automobile for transportation is excessive, as is the dependence on fossil fuels. There is an overall tendency toward excessive specialization and dependence in agricultural crops and methods, industrial organization, and settlement patterns. In general, modes of production and consumption are too limited, that is, unevenly developed. The rich diversity of habitat and culture is trampled beneath the stampede of uneven and one-sided progress. Lady nature is everywhere given the same painted face, although her features display infinite variation. Design over nature, not Ian McHarg's design with nature, predominates.

The shortcomings of the orthodox perspective are also revealed in the area of *social and economic values.* The posture of taking as datum those values expressed in relative prices is not value-neutral but value-conservative. This is, of course, the familiar problem of hidden or implicit values. The present concern is to extend this criticism and formulate a general methodological critique of orthodox economics. This general critique revolves around economic phenomena and epiphenomena. In the case of values, relative prices or exchange values are epiphenomenal; they express an underlying structure of technology, power, and social character. The function of a relative price is to provide an index of preferences and technical transformation possibilities. These are in turn the result of known technology and resources, decision-making power, social relations, personalities, and other socioeconomic habits and actions.

To put the matter differently, relative prices are meaningful because they are supposed to function to summarize this underlying structure. This is, I think, very close to what Ayres (1962, pp. 81–5) had in mind when he dismissed the positivist posture that economics is a science of relative prices and not relative values, because meaning attaches only to the latter. Even if exchange values do reflect faithfully the underlying structures, there is a problem because mystification tends to induce inaction or inappropriate action. Perverse conceptions of cause-and-effect can distort purposive responses to given stimuli. Confusion can be sufficient to enervate the social actor and engender passivity and fatalism. The orthodox orientation, Polanyi's 'market mentality,' mystifies the socioeconomic process. The social relations of production, the primacy of society, and the fundamentally technological nature of the economic process are hidden, and in their stead stand simplistic notions of individual choice and constraints and the inexorable working of exchange and relative prices, to tamper with which politically invites grave if unspecific consequences.

Moreover, exchange values do not necessarily provide faithful expression of the underlying phenomenal structure. The problems of externalities and collective wants, as is well known, fall outside the expressive capacity of the market mechanism, as do the intangibles of human existence which defy expression in terms of the market calculus. To these common examples must be added a more subtle problem. The cultural emphasis on the market and its vagaries distorts the pattern of human needing. Selfishness, individualism, and irresponsibility toward anyone outside one's intimate sphere are encouraged. The result is a short-sighted and infantile individualism which accents only 'I want' and 'mine.' This is an individualism which has lost sight of initiative, achievement, responsibility, and self-discipline. In other words, the market mystification not only obscures the underlying social process, it also perverts it. The pernicious and fatalistic influence of institutional fixity, the inability to see phenomena in any context other than the market situation, embodies a paradoxical legacy. That 'what is, is' simultaneously makes it difficult for people to imagine that matters could be different, and subtly alters human character by shaping it to the requirements of an econocentric social milieu.

The economist's neglect of the origin of values and the process of character formation in general takes on particular importance in our own day because a deep-seated change of values and attitudes may be underway. The faith in economic progress as a rise in per capita income has been thoroughly shaken. Serious questions are being raised about the merit of much economic output, as well as its cost in terms of deterioration of the ecological and interpersonal relations dimensions of human life. The exchange view is largely incapable of meeting these concerns, nor can it make much sense of the ambitions and problems of the welfare state. (See Chapter 9 and Stanfield, 1979, ch. 6.)

Much of this values-in-flux is a spin-off from the somewhat faddish concern for ecology, but there is more to the story. There is, first, a strong reaction to the extent and pace of change in modern capitalist society. There is considerable nostalgia and sentiment that matters are needlessly complex and in need of simplification. So also do people perceive a synthetic, unnatural, false, and ultimately inhuman character to modern social life.

There is a rampant cynicism and mistrust toward large-scale institutions such as the modern state, business enterprise, trade unions, and urban settlements. More and more, the American mecca is not the skyscrapers and excitements of urban places but the mountains, fields, and streams of the country. It is becoming true that people cannot be kept in the city when they have seen the country.

In addition to this reaction, there is a related but distinct and more radical concern for the meaning of life itself. The ubiquitous concern for the personal and individual is potentially more than the perverted individualism discussed above. There is a recent and radical concern for self-activity and self-development, which is not passive wanting. People are becoming aware of the content of their lives and their needs, responsibility, and right to a meaningful and developmental existence. The problem of individual life-style is very real and significant precisely because it embodies the conviction that people must act to live a life worth living, irrespective of the material accoutrements they enjoy.

It is precisely such a period as the present one, with its flux in values and attitudes, which reveals the basic weakness of the orthodox purview, namely its ahistorical character and neglect of social change (see Chapter 3). In terms of the vernacular of this chapter, when the underlying phenomenal structure is changing significantly, the analytical focus on epiphenomena is then especially inadequate.

2 Toward an Ecological Economics[1]

The ecological perspective is quite different. Its philosophic root is the secular idea that man . . . is wholly and ineluctably embedded in the tissue of natural process. The interconnections are delicate, infinitely complex, never to be severed.

L. Marx, 1974.

Conventional economic analysis is inadequate to the challenges posed by ecological economics. It is not denied that conventional economics contains much that is necessary and important to ecology. The contention is only that conventional economic analysis cannot foot the whole bill and must therefore be supplemented with an economics of a different scope and method. The concern is, in short, the adjustment at the margin of the allocation of the human capital resources of the economics profession.

The procedure is, first, to lay out a characterization of ecology and a derivative characterization of the economic analysis mandated by the nature of ecological problems. This ecological economics is then compared to conventional economic analysis and to the social economics underworld of the economics community. It is argued that this social economics contains the vision, in Schumpeter's (1954, p. 41) sense of a pre-analytical Gestalt, necessary for an ecological economics.

ON THE CONTENT AND METHOD OF ECOLOGY

The principal concern herein is the scope and method of ecological economics. In order to delineate such an economics perspective, it is first necessary to characterize ecology in general. Ecology may be defined as the analysis and evaluation

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of the reciprocal interaction of human culture and the rest of the natural system. This definition may seem too narrow in relation to other definitions of ecology, most of which mention interaction between any species and its environment. However, it seems best to specify human interaction because the principal concern is humanity's use and abuse of the rest of nature. Moreover, while more specific, the definition given here is not more narrow. The interaction of a non-human species with its environment is relevant to the interaction of humanity and the rest of nature.

So defined, ecology requires no more basis than the existence of orderly and discoverable natural processes which have meaning for human existence. Incontrovertibly, the physical and chemical processes of the natural system sustain, constrain, and mold all natural life. This includes the human species because the human being is a natural being and subject to the laws of nature.

That the human species differs from all other natural species by its intellectual and cultural potential does not exempt it from the laws of the natural system. So basic a proposition as the natural boundedness of human existence will surely occasion no demurrer – explicitly at least. Yet, concerning the rarefied atmosphere of modern economics, Daly quotes a puzzled M.K. Hubbert who noted: 'I have not the faintest idea what this (GNP) means (physically) . . . So far as I have been able to find out, the quantity GNP is a monetary bookkeeping entity. It obeys the laws of money . . . but it does not obey the laws of physics' (Daly, 1973, p. 34). Its unique properties do, however, present the human species with the singular privilege and necessity of comprehending these laws. The natural system is the habitat or place of life for the human creature as it is for all other natural creatures and entities, with the difference that the human creature knows this to be so and necessarily acts upon this knowledge.

As to its scope and method, ecology is inherently an evolutionary, holistic, and philosophic endeavor. As Commoner (1971, pp. 189–93) has noted, the interdependent, integrated character of the natural system as an ecological field of enquiry requires a holistic rather than a reductionist paradigm. Although the results of the reductionist sciences are nonetheless useful and necessary to ecological science, the ecological impact of any given phenomenon must be understood in terms of the whole.

The necessity of a holistic perspective stems from the underlying principles of interrelation and synergy: everything is, indeed, related to everything else and the whole is, indeed, greater than the sum of its parts. Notwithstanding the trite expression or the certain impossibility of thinking in terms of absolute totality, there is considerable difference between a *Gestalt* which routinely indicates the reduction of phenomena to their elemental parts and one which routinely elicits the purview of phenomena in terms of their relation to a larger whole (Gruchy, 1967, pp. 550–1).

The principles of interrelation and synergy command a relatively holistic perspective in the area of ecological policy as certainly as in basic ecological research (Passmore, 1974, pp. 47, 66). Policy analysts have run aground on these principles in watershed management (Frederick, 1977), land use control (Healy, 1975), forest resources management (Robinson, 1975), and waste residuals disposal (Spofford, Russell, and Kelly, 1976 and 1977). However, these are but the tips of massive icebergs. We shall begin to gauge the real magnitude of the problem when we try to formulate an energy policy without economic planning or systematic pollution abatement without growth management. We shall achieve further appreciation of the magnitude of our task when we try to consolidate our collective species' interest in rational ecological policy in the face of a cultural nexus which is alien to collective rationality and responsibility. This is to say that the ecologist's holistic mandate due to the interrelation and synergy of the natural system is compounded by the interdependent, synergistic character of the human cultural system.

The second aspect of the ecologist's methodological mandate is the evolutionary character of natural and social processes. Change is the essence of vital systems, and change implies process not equilibrium. A process is characterized by cumulative change through time rather than by the existence of, and tendential return to, some equilibrium or normal position. Although there are periods of relative quiescence and relative flux, a process is best viewed as a progression along a given structural and axial path or as a crisis and redirection of such a developmental path. In either of such periods, change is present. Quiescence and flux are distinguished not by rest versus change but by the character and pace of change. A useful analogy can be drawn to Kuhn (1970) who distinguishes between normal and extraordinary science, the former being the work-a-day articulation of a paradigm and the latter being, potentially, a scientific (paradigm) revolution. Normal science is not, however, equilibrium. Change is very much a part of normal science, notwithstanding that this change is of a different character from that characterizing a scientific revolution. It is not surprising that several writers have noted the dialectical content of Kuhn's ideas.

Just as the reductionist sciences complement holistic analyses, equilibrium, homeostatic, or steady-state analyses are not without their uses and complementarity to evolutionary analysis. However, though necessary, they are not sufficient for ecology which requires as well an analytical focus on process, development, and change. Ecosystems are subject to succession and ecological phenomena display threshold and dialectical characters. The succession or changing mix of the entities which comprise an ecosystem operates in response to relatively short-run forces as well as to the extremely long-run forces of evolutionary mutation and selection.

Threshold effects appear in both the residuals containment and resources development areas of ecology. As Kapp (1970, pp. 20–1) has noted, 'there is a threshold beyond which further discharges of waste cause not constant but cumulative changes and disproportionate damages.' There is no smooth curve of residuals disposal and environmental deterioration but, rather, a level beyond which accelerated and cumulative environmental disruption occurs. Threshold effects operate similarly in the development of renewable natural resources. Up to a point, the exploitation of a fishery reduces but little the fish population. Beyond some threshold, however, the population declines – perhaps to the point of extinction. There is another threshold toward the extinction pole. A population may be reduced beyond a viable level so that, even with the total cessation of fishing, it nonetheless becomes extinct.

Dialectical effects are also common to ecosystems. Threshold effects exemplify the dialectical law of quantitative changes becoming qualitative. Beyond the quantitative residuals containment or fisheries development thresholds, the ecosystems undergo qualitative transformation. Ecosystems are dialectical in another sense, that of opposition. An ecological species exists in a relationship of dynamic struggle or opposition to the environment which supports (food) or constrains (predators) it.

The point is that the ecologist must be sensitive to qualitative change or mutation as it grows out of quantitative change, and with anticipation and interpretation of the implications of cumulative causation and change. As in the case of the holistic mandate, the evolutionary mandate too is compounded by the evolving character of human culture.

A third aspect of the ecologist's mandate is the need for a paradigm which is philosophic and visionary. While there is no substitute for knowledge narrowly defined as the capacity for description and prediction, ecology requires also that knowledge of broader compass which allows interpretation and evaluation in light of human values and aspirations. Human comprehension of the laws of the natural system is interpretive and evaluative as much as it is predictive and analytic.

At one level, the philosophical mandate involves scrutiny of human values in the context of ecological issues. For example, Schurr and Darmstadter (1976, p. 7) cite the need to figure the effects of changing values and lifestyles into projections of the energy and economic growth connection. An understanding of ecological tendencies in relation to changing values and lifestyles requires a paradigm which explicitly treats the philosophical or ethical context of human behavior and thought. This need reinforces the needs already discussed for a paradigm that is holistic and evolutionary.

This clearly has policy relevance. The formulation and evaluation of ecological policy has a twofold philosophical dimension. First, there is the simple truth that policy is the servant of human values. Action is motivated by aspiration. Second, human values and lifestyles – especially when changing dramatically – must be figured into the formulation of policy lest that policy be frustrated or distorted by stimulation of anomalous or unexpected human response.

There is, moreover, a yet more telling dimension to the philosophical mandate. It is by now commonplace, or should be, that lasting progress in the ecological struggle will require philosophical and institutional reformation. Ecological policy thus becomes a matter of substantial reform, probably radically so. It is our basic ethical animus which is in need of review – our conception of what we are and how we relate to the rest of existence.

Thus, at another level, the philosophic mandate flows from the necessity of transforming human behaviour if the ecological struggle is to succeed. This transformation will require institutional adjustment – an alteration of humanity's habitual ways and means in relation to the rest of nature. Such a transformation can only follow a self-examination in which humanity's tacit knowledge or habitual perceptive *Gestalt* is subjected to conscious scrutiny. Many of our ecological transgressions stem from the simple ignorance of habitually taking the natural system for granted.

The foremost result of this self-criticism will consist of our conception of the natural system. A massive step toward an ecological ethic would be recognition of the natural system as a *habitat* or locus of the human life process. A habitat is no mere functional means to life. Though it is that, it is also a part of life, life itself. Since the natural system is the seat or cradle of the human life process, humanity's cultural and intellectual heritage must provide for the preservation and nurture of the natural system as much more than a mere utilitarian fount.

This point has been made in various ways. It is commonplace that the 'man as despot' relation to the rest of nature is a blueprint for disaster. One need not accept the shrill calls for a primitivist, mystical successor to the Western *Weltanschauung* to accept the folly of the despotism view and its importance in Western philosophy (Passmore, 1974, chs. 1, 2).

Krutilla (1967, pp. 780–1), in his re-examination of the principles of conservation, has pointed out the need for a broader view of the natural system. He cites the sentimental and scientific values of 'unspoiled natural environments' in contrast to the narrower functional view of natural resources and environmental media for residuals containment. To this we can justifiably add the concept of option value which Krutilla helped to pioneer. With or without any particular function in mind, society may wish to retain the option to use a primitive natural environment, as such, in the future.

In drawing a distinction between the currently ascendant 'ecological perspective' and the older view of conservation of natural resources or residuals containment media, Leo Marx has succinctly put the argument for a habitat conception of the natural system (L. Marx, 1974, p. 302). This conception is so powerful because it at once challenges the traditional Western view of the natural system and defends the Western view from the recent barrage of mystical, anti-materialist sentiment. In this view, the natural system is not simply a bundle of exploitable resources and waste sinks, it is the very tissue into which human life is woven. But, this tissue is materialist to the core – 'the tissue of natural process.' The material world is the cradle of the human life process; it is no more a mere means to human life than is one's home or one's social relationships.

If we are to have a new Gestalt in which the natural system is conceived as a habitat, we shall need to readdress the age-old question of human nature. We cannot see ourselves differently *vis-à-vis* the natural system without seeing ourselves differently, period. We shall need then a new vision, in Schumpeter's sense, of human nature.

This vision will no doubt involve an activist orientation to human nature. The inert, utilitarian conception of human nature must give way to the conception of humanity as an active partner to the natural environment (McHarg, 1971). The human relation to the natural system is thus rendered to be creative and progressive. Activist humanity, consciously so, will progressively extend its comprehension of the laws of nature within a habitual nexus embodying the habitat conception of the natural system. The traditional Western purpose of material progress need not be abandoned, but its quantitative and despotic orientation must give way to an orientation of nurture toward the 'natural tissue' into which the human life process 'is ineluctably and wholly imbedded.'

In sum, I submit that the discipline of ecology must be holistic, evolutionary, and philosophical in method and content.

ECOLOGICAL ECONOMICS AND CONVENTIONAL ECONOMIC THOUGHT

An ecological economics would mirror these paradigmatic requirements of ecology generally. The social system and its interaction with the natural system would be viewed from a perspective which is holistic, evolutionary, and philosophical. The unity and interdependence of human behavior would be the focus of the ecological economist. The social system would be viewed as a process of cumulative change and transformation. The social system and its fundamental entity, the human individual, would be given philosophical interpretive investigation in its relation to the natural habitat.

Conventional economic thought can be seen to be more or less lacking on all three of the requirements of an ecological economics. As explained in Chapter 12, its foundation is the formalist, economizing definition of the key term *economic* and its essential task is to examine the implications of the postulates of scarcity and rationality. Given axiomatic universal scarcity, economic science tends to be conceived independently of institutional situations. Whatever the value of this approach to economics in other regards, it is insufficient *per se* to yield an ecological economics. It is static and reductionist in scope and method. The economic problem which provides the fundamental orientation of conventional economic thought, namely the allocation of given resources to satisfy given alternative ends, is a static conception. By contrast, an evolutionary viewpoint would focus on the evolving character of resources and ends as technology and institutions change. (See Chapter 8 above as well as Veblen, 1967, pp. 63, 126, 166–7; Peach and Constantin, 1972, pp. 9–20; and Dubos, 1973, p. 40.)

The conventional orientation is also reductionist in that it purports to analyze some parts of the social process in isolation from the totality. This flows to a great degree from the reduction of the concern of economists to the principles of choice. The static, reductionist scope of conventional economics presents a serious barrier to an ecological economics. Many of the pivotal questions of an ecological economics transcend the scope of traditional economic analysis. The content of ecological problems dictates the need for an economics which is evolutionary and holistic in its concern with human culture, habits, values, and technology in a dynamic relationship to the natural habitat.

Conventional economic thought, as just characterized, also precludes any concern with a broad, all-round interpretation of the human condition. As noted in Chapter 1, it begins with the individual as a datum and therefore dismisses the socialization process by which the individual is formed. The one-sided, utilitarian view of the human being to nature leaves no room for the habitat conception necessary for an ecological economics. A habitat is not simply a thing to be consumed or even a capital good from which to secure a rate of return, notwithstanding the usefulness of capital theory with respect to some of the issues regarding resource conservation. (See the seminal contribution of Scott, 1954.) A habitat is a place or setting within which one lives; it is a part of one's life process.

As a result of these basic defects, conventional economics fails the ecologist in several other ways. Without a theory of institutional change and the formation of values and perspectives, conventional economics is not forward-looking and can provide only limited assistance in the anticipation of emergent problems and needs. Conventional economic thought also provides little assistance in the understanding of human culture as a whole and of the relations of the *whole* human being to the natural habitat. Its assistance is also limited in the areas of understanding the cultural influences on economic thought and the understanding of the economics community as a social system with a structure of power, discipline, status, and communications. This last, the relation of economics to culture in general and the social structure of the economics community, is important because economic thought is an important component of the cultural Gestalt which is to be reformed under the mandate of ecological issues. (See Stanfield, 1979, Chs. 8, 9.) For all these reasons, conventional economic thought, although useful in important respects, fails the ecologist in other, also important, respects.

THE PERSPECTIVE OF SOCIAL ECONOMICS

An alternative social or institutional economics perspective has long persisted in opposition to mainstream economic thought. It can be found in the works of mercantilists, Marxists, American institutionalists, democratic socialists, behavioral psychologists, sociological ecologists, and fascists. Its basic premise is the primacy of society; that is, the human being exists and is formed within a web of social relationships. The human being is no less wholly and ineluctably imbedded in the tissue of cultural process than in that of the natural process. Human existence is at once and always an interrelated natural and cultural process. This view emphasizes the material or substantive meaning of *economic.* Subject to the physical and chemical laws of nature, humankind must provision itself with food, shelter, clothing, and other goods and services which are necessary to support individual and social life. This conception necessarily emphasizes technology in the analysis and interpretation of human culture. Technology is at once the medium through which the human species interacts with the rest of nature and a basic determinant of the character of specific human culture. This is not a call for technological determinism but simply the conviction that humanity cannot comprehend its essential nature without comprehension of technology and its relation to the other dimensions of human culture.

Another key difference between social economics and conventional economics is that social economics deals with *social reproduction* while the latter is concerned with the production and distribution of goods and services. Social reproduction includes these concerns of conventional economics, and social economics does not deny the validity of the calculative viewpoint in so far as it goes. But social economics insists upon going further and fashioning an economic theory of broader compass.

Social reproduction obviously involves procreation and the provisioning of the material needs of humanity. But it also involves *socialization* because the human being must be reproduced not only as a physiological entity but as a moral, aesthetic, and functioning entity as well. In modern society, checkbook balancing, operation of a motor car, and the like are functional requirements for the normal individual. The individual must also appreciate the ethical and aesthetic standards of modern society. Whatever their aesthetic value on some transcendental scale, television, cinema, pop music, and football exist as mass culture and the individual must be sensually competent in their nuances in order to appreciate them. The same goes for the ethics of modern mass society.

The social economist is, therefore, led to analyze the structure, function, and evolution of socialization institutions such as family, church, work organization, politics, formal educational complexes, and the sensual, aesthetic realms. In this examination, questions of power, social stratification, and their legitimacy are very important. The ability to influence culture and the direction of that influence is not equally distributed among the individuals, groups, and classes which comprise society. The social economist must examine this disproportionate influence as part of the search for the drift or developmental tendency of the social economy.

Obviously, this drift and the distribution of power which it expresses are crucially important for the transition to a more ecological social economy. As already noted to be commonplace, ecological progress will require adjustment of habitual patterns of thought and behaviour. This adjustment and transition to an ecologically sound social economy will require that those wielding predominant influence on the social economic developmental tendency think and act to make it so. In other words, the structure of socioeconomic power and interests will have to be refashioned towards the service of ecological goals.

To some degree, the conventional economics perspective, with its emphasis on incentives and its strategy of internalizing externalities, captures this structural and functional reformation. The insights of conventional economics concerning market incentives and economic behaviour will most certainly be useful. Moreover, the full internalization of social costs and benefits would indeed require radical institutional change. (See Chapter 7.) However, the internalization approach is limited both practically and conceptually. For one thing, it is in practice asymmetrical with regard to external benefits and costs. The benefits side of the ledger has been largely neglected. Yet there exists a clear need to restructure power and interests to reward ecologically meritorious behaviour as well as to penalize ecologically irresponsible behavior. Kapp (1971, p. 11) includes external benefits along with external costs and the limitations of the rationality assumption in his threefold critique of the market ideology. Unfortunately, at least to my knowledge, he never completed the 'larger inquiry' of which his work on social costs was but one part. Moreover, in practice, the internalization strategy faces formidable, perhaps intractable, problems in estimating and instituting the costs to be internalized.

But these are matters of practice and my current focus is principally conceptual. The principal conceptual difficulty of the internalization strategy is its implicit conviction that externalities are exceptional and not commonplace. However, human beings are fundamentally social and it is difficult to imagine a human activity which involves no effect on others. That is, human activities are interdependent and we should expect externalities to be pervasive.

There is a further conceptual difficulty, given the pervasive extent of external phenomena. As noted already, full internalization has radical institutional implications. However, conventional economic thought takes the extant institutional configuration as given, and this, in the face of the internalization strategy, it can do only by insisting that external phenomena are extraordinary. This *institutional fixation*, kith and kin to the static conception of socioeconomic phenomena, severely limits the capacity of conventional economics with respect to the guidance of institutional reconstruction.

Another, and very important, contrast between the evolutionary focus of social economics and the static focus of conventional economics is the modern corporation. From the perspective of social economics, the corporation is not merely a large firm. Rather, it is an institutional mutation with a qualitatively different structure and function in relation to its environs than to its nineteenth-century predecessor. Since the corporation is a predominant seat of decision-making over the nature, extent, and location of productive activity, an accurate comprehension of its character is essential to an ecological economics. Then too, socioecological policy must be to a great extent a policy of social control of corporate behavior. Such control is necessary to overcome the self-justifying commodity production which makes sound ecological policy impossible. (See Chapter 4.) The perspective of social economics is not only holistic and evolutionary but also of wider philosophical grasp than conventional economic thought. The primacy of society means that the individual is part of a total cultural nexus and must be understood in the context of that totality. Social control for the social economist is an ever present fact of life and is not reducible to the simplistic notion of political intervention in the marketplace. This political process is a very important part of social control but it is not predominant for all that importance.

The overly simple view of social control as political intervention into the affairs of individuals stems from the extreme individualism of the conventional perspective (Hunt, 1977). The individual is taken as a datum, a priori to the social process, and this reduces the question of social control to constraining the interdependent behaviour of *given* individuals, and their values and preferences.

By taking the individual as the result of, rather than prior to, the social process, the social economist brings the multifaceted aspects of social control smoothly into the analysis. There is no question in this view as to the whether of social control, but only of the form and content of social control. The question of the political medium of social control is therefore placed within the context of other institutions for social control such as the family, religious organizations, communications media, work relationships, social (leisure) relationships, and so on.

The social economist's conception of the human individual and culture as a unified totality is a dynamic one. The process of forming and informing the individual is an ongoing, cumulative process. This contrast between their respective views on the individual and the social process explains a large part of the contrasting visions of the conventional and social economists.

There is also explicit philosophic content to social economics. Human nature and the human relationship to the rest of nature, at a point in time, represent the culmination of the process of cumulative causation that distinguishes the human species as intelligent, cultural beings. The human relation to the natural habitat is a multifaceted one. The human being depends upon the natural habitat 'body and soul.' It is not only in physiological and functional terms, but also in sensual, inspirational, and aesthetic terms that the human creature draws upon the natural habitat.

The human economic relationship to the natural system therefore requires an economics which is a moral science (Cochran, 1974). As a science of ends as well as means, social economics does not take human preferences as given or immutable. Individual preferences, and the individual generally, are the results of a cumulative social process. For the social economist, the basis of preferences and the criteria for judging them are valid problems for economic enquiry. They are also part of the social problems matrix facing the ecological economist.

CONCLUSION

The perspective of social economics clearly satisfies those requirements of an ecological economics which conventional economics fails to satisfy. The understanding of human institutions and their origin and evolution is basic to the perspective of social economics. Social economics is evolutionary and therefore forward looking, including the analysis of long-term and qualitative change. The concept of process rivets the attention of the social economist to the developmental paths of cumulative causation and enables the anticipation of problems, crises, and redirections.

It is convenient to summarize the present argument by distinguishing ecological problems as social problems and the problems of ecology as scientific problems (Passmore, 1974, p. 43). The economic aspects of contemporary socioecological problems are of such a nature as to require an economics which is holistic, evolutionary, and philosophical. If the economist is to assist in the solution of socioecological problems, the nature of these problems must be amenable to the scientific paradigm of economics. In other words, the economic aspects of socioecological problems must become scientific problems of economics. The current argument is that this result can be achieved by an ecological economics as characterized above and that this ecological economics lies beyond the pale of the conventional economics paradigm but within the reach of the social economics paradigm.

3 The Neoclassical Synthesis in Crisis[1]

It is, I believe, the fact that most of the fundamental errors currently committed in economic analysis are due to lack of historical experience more often than to any other shortcoming of the economist's equipment.

J.A. Schumpeter, 1954.

The ultimate test of a set of economic ideas . . . is whether it illuminates the anxieties of the time.

J.K. Galbraith, 1973.

This chapter provides an institutionalist analysis and diagnosis of the current crisis of orthodox economics. We shall, first, characterize the predominant opinion in economics – the neoclassical synthesis. Next, we examine the anomalies which are currently vexing orthodox opinion and their sufficiency to provoke a period of crisis and extraordinary science. In the final section, we diagnose the source of the anomalies of the neoclassical synthesis.

POST-WAR NORMAL SCIENCE IN ECONOMICS: THE NEOCLASSICAL SYNTHESIS

The current normal science paradigm in orthodox economic thought emerged after the Second World War. This paradigm is a combination of Keynesian macroeconomics and neoclassical microeconomics. The macroeconomics core of this perspective was itself originated in the Keynesian paradigm revolution (Kuhn, 1970). The Keynesian revolution brought macroeconomics to the center stage of economic thought. This altered the focus and fundamental generalizations and problems of

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economic thought. The primary puzzles of economic thought shifted from distributive shares and optimal resource allocation given full employment to the determinants of the level of employment and to state policy for the achievement of full employment. The new presumption was that the level of employment and output, not price levels, would adjust to insufficient aggregate demand (Stanfield, 1974a). The fundamental models and functional relationships of the new economics were concerned with the determination of the level of income, output, and employment and the role of the state in the underwriting of aggregate demand.

Given its birthmark amidst the disaster of world-wide depression, Keynesian economics was pragmatic and policy oriented. The Keynesian revolution delivered a final and fatal shock to the doctrine of the automatic market mechanism and laissez-faire. The new economics contained the ideology of an activist, interventionist political economy.

However, the Keynesian revolution also delivered the potential for a new normal science. The new paradigm offered manifold opportunities for articulation and puzzle-solving of its new behavioral functions and analytical tools. The consumption, liquidity, and investment functions were sharpened and given pedagogical textbook articulation. The new economics was amenable to econometric modelling and went hand in hand with the development of national income accounting and economic indicators.

In the midst of this articulation there occurred a subtle but dramatic revolution within Keynesian economics. This second revolution or revolution within a revolution entailed an intensive development of formalism and mathematical rigor in economic thought. It is true that neoclassical economics, and the drift of Anglo-Saxon economic thought generally after Ricardo, was highly formalized. The American Economic Association was founded in dissent from this trend but did little to stem the tide until the 1930s. It is also true that neoclassical economics had given rise to mathematical economics around the turn of the century.

Nonetheless, it is still appropriate to say that a *formalist revolution* occurred in economics after the Second World War. The formal rigor and mathematical sophistication of economics in the post-war period was both more intensified and more predominant than anything of the sort which had gone before. Moreover, this new formalism seems to run counter to the pragmatic bent of incipient Keynesianism. This is especially so given the influential role of American Institutional economics in the inter-war period.

This formalist surge culminated in the neo-Keynesian, post-Keynesian, or bastard Keynesian consensus which now faces vexations of crisis proportions. This new consensus has integrated Keynesian macroeconomics into the neoclassical fold of value and distribution theory and Paretian welfare economics. One of the leading formalist revolutionaries, Paul Samuelson, was also one of the first economists to recognize the new consensus. Samuelson named this new consensus the *neoclassical synthesis.* According to Samuelson, the neoclassical synthesis:

> . . . shows how appropriate monetary and fiscal policies can ensure an economic environment which will validate the verities of microeconomics . . . [It] combines the essentials of the theory of aggregate income determination with the older classical theories of relative prices and of microeconomics. In a well-running system, with monetary and fiscal policies operating to validate the high-employment assumption postulated by the classical theory, that classical theory comes back into its own, and the economist feels he can state with renewed conviction the classic truths and principles of social economy.
>
> (1964, pp. 809–10.)

The essence of the synthesis is, then, that once Keynesian political economy has guided the state in the underwriting of full employment equilibrium, the focus of economics can return to the neoclassical world of relative prices, allocation of given scarce resources to given alternative ends, and the distribution of national income among the factors of production.

It is noteworthy that the theory of the state in the neoclassical synthesis does not return to the laissez-faire ideology of pre-Keynesian economics. There are a variety of state interventions prescribed in addition to Keynesian macroeconomic policy and traditional antitrust and regulatory activities in troublesome areas of industrial organization. The interventionist drift of recent economic thought also builds upon the Pigouvian departure in the area of externalities and social benefits and costs. Reaching an apex in the Musgravian theory of public finance (Chapter 5), this trend prescribes a very active interventionist state in areas of market failures.

However, the neoclassical synthesis is not a complete break with the laissez-faire predisposition, notwithstanding its peace with the activist state. The litany of the theory of the state in recent economic thought is the *justification* of state intervention. This implicitly holds over the laissez-faire predisposition and offers no positive ideology of the welfare state. (See Chapter 7 and Stanfield, 1979, ch. 6.) Moreover, the naive internalization strategy is not only consonant with the orthodox economists' individualistic, market bias in decision-making, it also relieves the economist of the formidable threat posed for the orthodox paradigm by the interdependence which is implicit in the externality concept. This interdependence and the socialization and power concerns it contains threaten the formalistic bent as well as the market bias of orthodox economic thought.

The neoclassical synthesis has also removed from Keynesianism the candid dicta on such matters as income distribution and the socialization of investment. The original Keynesian formulations unabashedly advocated income redistribution on the basis of differential propensities to consume along the spectrum of the size distribution of income. This contained as well an implicit recognition of the class structure of the capitalist social economy. In contrast, a recent introductory text (Reynolds, 1976, p. 100) asserts that 'there is some evidence, though not conclusive evidence, that the MPC is lower for high-income families. If this is correct, downward redistribution of income will raise the consumption schedule.'

The original Keynesian formulation also hailed macroeconomic policy as a part of a general step toward the socialization of investment. The opinion of current economic thought on this matter sees no such thing. The homage paid to business confidence and the shift toward tax cuts as a tool of expansionary impetus indicates that the socialization of investment has no pivotal place in recent economic thought.

There may also have been a structural, institutional mentality to original Keynesianism. If so, it has clearly been lobotomized by the surgeons of the neoclassical synthesis. We shall return our attention to this possibility below in the discussion of the sources of the anomalies which currently plague the neoclassical synthesis. At this point, we have said enough to communicate our thesis of a formalist revolution and to provide a working typification of current orthodoxy in economic thought.

THE ANOMALIES OF THE NEOCLASSICAL SYNTHESIS

We can now go on to our discussion of the symptoms of the current crisis in economic thought. We have termed these symptoms anomalies and the responses they induce extraordinary science. We shall diagnose these symptoms in the following sections.

It is convenient to divide the anomalies into two sets: *structural* and *evaluational*. The structural set of anomalies refers to such phenomena as the pattern of wealth distribution, economic power, and the character of product and factor supply and demand. These phenomena can be satisfactorily divided into their macroeconomic and microeconomic aspects. Structural considerations in the macroeconomic case concern the microeconomic basis of macroeconomic adjustments. Cast in terms of equilibrium aggregates, the discussion leaves implicit the fact that aggregate adjustments occur through micoreconomic changes. There is no such thing as an aggregate exchange. For example, given a multiplier value of four and an investment injection of ten billion dollars, it follows that income will change by forty billions. But, this change occurs through individual markets as businesses invest the ten billions and households receive and spend incomes. Contemporary Keynesian equilibrium aggregate analysis assumes, if not perfect microeconomic markets, at least very fluid ones.

Robinson provided an interesting assessment of contemporary Keynesianism – bastard Keynesianism in her unabashed phrase. Robinson (1974, pp. 6–11) notes the importance of structural considerations in her view of the Keynesian message. She charges the articulators of the neoclassical synthesis with the neglect of these considerations in their fashioning of the orthodox strategy of balancing full employment leakages and injections. She notes such lacunae as the neglect of the structural characteristics of capital stock, labor supply, and the distribution of income and wealth. Robinson asserts that Keynes was more in tune to structure and disequilibrium dynamics than are his nominal articulators. She very colorfully depicts the illegitimacy of the majority of the contemporary interpretors of Keynes.

The most pressing manifestation of the structural frustration of orthodox opinion is stagflation. The income determination theory with which we teach and write textbooks indicates that a state of inflation will exist when full employment leakages fall short of injections and unemployment when vice versa. This stark formulation has no place for the simultaneous occurrence of unemployment and inflation which has been so pertinaciously present in recent years. Indeed, even the more realistic conception of a tradeoff between inflation and unemployment has been tarnished in the recent economic crisis.

Of course, as the reference to the Phillips curve reminds us, the basic theory is supplemented with discussion of frictional adjustment problems, hard core unemployed, and cost-push and sectoral-shift inflation. This supplementary discussion does bring up important structural considerations. The identification of these structural considerations would not, perhaps, be so differently made by the orthodox proponents of and the critical dissidents from the New Economics. In any case, the more important contrast between the two is one of mood and not objective identification. The question which divides and contrasts the two groups is a rather subjective and judgmental one. It is the question of when qualifications upon a given paradigm cease being considered peripheral and become evidential of a need for a new perspective.

This should not surprise us. Kuhn stresses the subjective character of paradigm acceptance (Stanfield, 1974a, pp. 100–1). This subjective character is due to the incommensurate nature of conflicting paradigms. In times of extraordinary science a practising disciplinarian must select a paradigm based upon his or her judgment of its probable instrumental validity in the future. Of course, this selection is made within the web of a social nexus. The individual practitioner is no isolated ruminator but rather a participant in a social process.

The microeconomic aspect of the structural anomaly involves essentially the questions of proportionality and power. Proportionality refers to the structure of product and factor supply and demand. In conventional economic thought, the principal force relied upon to coordinate the proportional structure of various industries is the market and its implicit guesswork and trial-and-error adjustments by entrepreneurs. There is considerable substance to this view in positivistic terms. That the methods of corporate decision-making have grown more sophisticated does not ameliorate the partial character of this planning. There is still no interindustrial coordinating force on a large scale.

When we move into the area of political economy and policy formulation, the view of coordination by the market reveals its shortcomings. The market force is insufficient in this coordination function. Without adequate coordination among the various industries, disproportionalities such as input bottlenecks or product surpluses occur. A most notorious case in point is the recent surplus of automobiles, air conditioners, industrial factories, and so on relative to the available supply of fossil fuels. This way of stating the problem of the energy crisis emphasizes that any shortage implies surplus and vice versa. Thus stated it is also evident that disproportionality is the heart of the problem. The absence of effective coordination allowed the development of a disproportionate demand relative to supply.

Needless to say, the possibility exists that the energy shortage was not accidental but rather the machinations of vested interests. Whether the energy shortage was a matter of honest mistakes or the collusionary instigation of vested interests is an important question for political economy. However, whichever be more nearly true, there is nothing that obviates the principle of proportionality and its importance to discussions of the structure and coordination of economic activity.

The possibility of collusionary extortion of the public brings to mind the other anomalous microeconomic aspect, economic power. The ability of powerful economic interests to administer prices or wages with some degree of independence from market conditions is obviously an important source of the macroeconomic structural anomaly as well as a difficult problem for the microeconomic theory of product and factor markets and resource allocation and income distribution.

It is also important to understand that economic power is more than the market power traditionally of concern to economists. It includes as well the very important influence exercised by the controllers of large wealth over public policy formation and public opinion. The oscillation of macroeconomic policy ('stop and go') owes much to the continuing struggle of interest groups in the formation of stabilization policy.

In a political economy geared to a high level of government intervention, this has more than aggregate implications. The lament or rejoicing that 'we are all Keynesians now' should signal economists that the razor's edge of public spending is more its structure than its size. The level of public spending is less a problem for political economy than its content. The really vexing problem is the point of application of compensatory fiscal increases or cutbacks. This is all the clearer if we recall the concept of tax expenditures which integrates the spending and taxing sides of the fiscal policy coin.

The primacy of interest groups in the process of public policy formation has been found remarkable to most academicians who visit the halls of the state. Two recent examples are provided by the remarks of Schultze (1968, pp. 95–6) and Shultz (1974, pp. 6–11). An adequate theory of political economy would have to cope with the interest group nature of this process. Obviously, the absence of a satisfactory conception of power greatly inhibits orthodox economics in any efforts it might make toward the development of such a theory of political economy. For much the same reason, however, we should not anticipate such an effort to be forthcoming.

If political economy be understood as the resolution of conflicting values or claims, the anomaly of power is not only more than economic, it is also more than political economic. This follows from the fact that economic power is crucial even to the formation of values. A crucial parameter of the control of large wealth is access to television, radio, newspapers, and other media, and influence within such cultural going concerns as churches, governments, schools, and voluntary organizations. These and other similar institutions contain the principal socialization processes of modern society. They literally reproduce society as an organism consisting of moral, evaluational individuals. They do not simply inform but also *form* individuals. The values, preferences, and habits which underlie societal judgment on economic inputs, outputs, and impacts are reproduced by these institutions.

The importance of choice in economic thought is well known as is the critical role played by individual judgment in the choice process. This import exists for choices made through the market or political mechanisms. Given this, the formation of the perspectives from which judgment flows is obviously a crucial concern.

This critical importance is easily demonstrable by the theory of consumption behavior. Consumer demand is derived from the individual household making calculated assignments of utilities to alternative commodity bundles and distributing its budgeted income accordingly. For orthodox economics, consumption is the ultimate concern of economic life and the sovereignty of the consumer is a basic article of faith and axiom of theory. It follows that, for economists, there is perhaps nothing so sinister and threatening as the Galbraithian (1967) conception of *revised sequence.* In this view, the corporate elite orders consumption to fit the needs of production. At any rate, neglect of the aspect of power with respect to the formation of values is at least as serious for economists as the inability to cope with the resolution of value conflicts.

The structural anomaly thus merges into the second set of anomalies, the *valuational.* At one level, the valuational anomalies have two apparently contradictory aspects. On the one hand, the lament is common in the underworld literature that economics is wedded to an excessively positivistic stance and insufficiently concerned with normative issues. On the other hand, it is even more frequently overheard in the underworld that orthodox economics has embedded in its foundations the values of bourgeois culture and that therefore economics is convenient to the vested interests of that culture.

The apparent paradox is easily resolved. Most critics along this vein would accept the more carefully phrased statement that orthodox economics, by ruling out of order explicit consideration of values formation and subjection of values to scholarly scrutiny, allows the market bias to continue its residence in the foundations of economic analysis. That is, the posture of positivism is but so much sham. It should by now be an old dictum that 'economics for all its study of value, understands little about values.'

The problem of values in economic thought has recently come to the fore in the ecology movement and counterculture. Many ecologically-minded social critics have widely proclaimed the growthmania of the economics profession and more or less dismissed the profession's pleas to consider opportunity cost in thinking about environmental problems. Apparently, no amount of economists' talk about internalization of externalities will dissuade this element of the ecology movement of the conviction that economics is at best feebly out of date and at worst arrogantly in neglect with regard to problems of ecology.

This is no mere petulant indictment about the relevance of abstract economic theory. The entire economics establishment is indicted. Anyone who speaks for the economic view of social problems is suspect immediately. Quite similarly, the counterculture places economics within the vanguard of technocracy. To them, economists are cultists of efficiency who see statistics and objects instead of human beings and subjects.

These sentiments render constructive service to economic thought about the human condition. It is important that attention be called to such problems as the business culture or market bias of economics, excessive plundering of natural resources and environmental amenities, and the proliferation of technocratic hegemony over the perspectives from which human beings look upon themselves. These sentiments may provide a landmark service to economics by laying the groundwork for a reconstruction of the concept of human nature and human progress in economic thought.

To question both the expansion of the material accoutrements of life as the ultimate goal of economic activity and the criteria of efficiency as the standard for analysis of economic activity is to leave a void in the foundation of received economic thought. If consumption is not the end of production and the motivation of human action, what is left of the content of economic thought since Adam Smith declared it so? If more is not necessarily better, by what standard is some good and some less than more best? To assist in finding answers to these questions – and it appears that we must – economists would have to thoroughly reconstruct their paradigm.

CRISIS AND EXTRAORDINARY SCIENCE

The reconstruction of the economics paradigm requires that this course of action be widely perceived as necessary, which is to say that a period of crisis and extraordinary science must prevail if the paradigm is to be overhauled. It is therefore necessary to treat the question of the sufficiency of the anomalies reviewed above to provoke a crisis. Happily, this discussion need not be an elongated one because latterly the existence of a crisis in contemporary economic thought is not a particularly estiferous controversy.

Kuhn lists three exemplary factors which might enable the existence of anomalous areas to evoke a period of crisis and extraordinary science. These are, first, if the anomalous area is involved in a pressing practical problem; second, if the anomalous area questions fundamental generalizations of the paradigm; and, third, if the anomalous area has a long history of persistently defying resolution within the paradigm.

Although Kuhn offerred these three factors as examples, they seem to be quite comprehensive. It is difficult to nominate an example which does not accord with one of these three factors. We shall therefore ignore Kuhn's qualification and treat the three items as analytical categories.

First, are the anomalous areas in contemporary economic thought involved in a matter of pressing practicality? The answer is clearly affirmative. The vexations of economic thought are in the areas of economic stabilization, ecology, power, and alienation. The stagflation crisis is a subject of immense practical concern. Environmental and resource crises are evidently no less pressing. The existence and legitimacy of power has made the headlines in various scandals. Alienation and anomie were a major part of the recent American election in that they underlie the discourse on the need for ethical and spiritual revival.

The Galbraithian (1973) 'test of anxiety' indicates the pressing practicality of these and other social issues. The structural and evaluational blindspots of economic thought leave economists impotent before the issues about which the citizenry feel anxiety. Even if these issues prove to be ephemeral – and there is little chance that they are – economics fails the test of anxiety because it cannot demonstrate their lack of substance.

The second question is whether or not the anomalous areas throw open to doubt fundamental generalizations of the economics paradigm. The answer here too is affirmative. The evaluational anomalies strike economics at its core of value theory.

Economic theory is wedded to the proposition that the market mechanism, supplemented with state action in cases of market failure, provides summary information on the social and technical parameters surrounding resource allocation. If this combined market and intervention process provides inadequate information on the social assessment of resources in relation to wants, this proposition fails. If economics has so lost sight of the human condition and its relation to the natural habitat that it cannot meet the evaluational needs of the social economy, then economics has lost its *raison d'être* in a most fundamental way.

The structural problems in the macroeconomic sphere pose a threat which is no less fundamental. The Keynesian income determination model is basic to macroeconomic theory. The pragmatic policy facet of macroeconomics is also a fundamental part of the *raison d'être* of contemporary economic thought. Therefore, if the income determination model does not capture the aggregate character of the social economy sufficiently to allow sound policy formulation, economics is dealt a fundamental blow.

Finally, orthodox economics begins with the individual as a rational manager of a bundle of resource services and utility calculations. The behavioral or fundamental sociality implications of a generalized externality concept casts aspersions on this foundation of economic thought. If interdependence of human actions be the rule rather than the exception, this preconception of the autonomous individual is invalid. The additional questions of consumer manipulation and neurotic 'materialism' accentuate the problem posed to this foundation of economic thought.

Third, the anomalous problems, for the most part, do indeed display a persistent history. The issues of institutional structure, economic justice, sociality, economic instability, and even ecology are very old. Oddly, though, except for the continuum in Marxist and institutionalist thought in these areas, much of the new literature of concern does not build directly on past contributions in these areas. For example, one gets the feeling that many dissidents nowadays think they discovered the problems of environment and structure. This is part of the crisis we now face. The social structure and pedagogy of economics does not leave many avenues open for graduate students to discover the seminal contributions of dissenting traditions. The result is the invisibility of valuable building blocks.

The anomalies of the neoclassical synthesis do then provide adequate potential for crisis and extraordinary science. No tedious discussion is necessary to affirm that this potential is being realized. A few brief comments on the post-war history of the discipline's social structure will suffice.

For two decades following the Second World War the social structure of the economics community was stable and its disciplinary matrix was strict. The discipline of the formalist kingdom was so predominant that the ruled members of the profession took on the deferential demeanour characteristic of the objectly subordinate. Professionals, who could not even begin to navigate the macabre maze penned by their mathematically inclined betters, 'shuffled' to prove their appreciation of the exalted jargon. If they could not write or read the rigorous restatement of the self-evident, they could nonetheless attest to its supreme methodological worth. To have done less would have called attention to their formalistic inferiority and made them seem envious. They proved their worth by backing the emphasis of formalistic training in curricular and hiring decisions. To this day, suggestions to curtail econometrics and calculus curricular requirements in order to expose graduate students to more of the sociological and philosophical aspects of economics are referred to as watering down or weakening the program.

From 1945 to 1965, there was very little visibility accorded to the dissident traditions in economics, allowing for such exceptions as Baran, Sweezy, and Galbraith. But Sweezy was not within the halls of academe and Baran sailed troubled waters. And Galbraith, despite or because of his popular success as an essayist, was not exactly welcome within the economics community. This author will never forget the response he received from a professor in an undergraduate class in 1967 when he raised a point from Galbraith's *New Industrial State.* The professor sniffed that though certainly interesting and entertaining as an author, Galbraith was not really an economist. Over the years since, there has been enough occasion to discuss this response with colleagues to conclude that this was no isolated instance.

But the discipline of the economics community power structure has clearly weakened since 1965. The Association for

Evolutionary Economics, founded in 1958, has become more visible and has published the *Journal of Economic Issues* since 1967. The Union for Radical Political Economics has emerged to give Marxist economics considerable visibility. URPE members have formed local committees to recruit and secure positions for radical economists. *Dollars and Sense* and Popular Economics Press, while not URPE organizations, involve many URPE members and share a definite affinity with URPE. The examples of AFEE and URPE provide a signal to the novice economist that professional involvement in alternative economics research and teaching is possible. The Association for Social Economics has also heightened the visibility of a broader economics perspective.

The dissident tradition has also benefitted by the AEA presidency of Galbraith and the AEA executive office filled by Sweezy. Of course, Galbraith's presidency was threatened by a boycott by some members. But they were in a minority and had to accept in the important office the man they had described as 'interesting but not an economist.'

We can add to this historical overview that there has been of late an increase in explicit methodological debate. This debate has not been limited to dissident journals. It has shown up in the *American Economic Review* in Heller's (1975) response to Ward (1972) and in Gordon's (1976) presidential address. One suspects, however, that this dialogue has just begun.

THE SOURCE OF THE ANOMALIES

If then the discipline of economics be on the verge of a period of extraordinary science and paradigm revolution or redirection, it becomes important to examine further the anomalies involved in order to discover their source. This information will greatly assist us in understanding and fashioning the coming redirection of economic thought.

It is apparent, first, that various underworld traditions in economics have long been concerned with the anomalous areas of economic structure and social evaluation. These dissenting intellectual traditions have also been tied together by methodological similarities. They have tended to view the economic system from historical and evolutionary perspectives, and have criticized mainstream economics for its undue abstraction, deductive bent, or analytical rigor. Historical schools, Marxists, institutionalists, and political economists generally have long faulted orthodox economics for being insufficiently grounded upon inductive, descriptive knowledge of actual economic processes and insufficiently attentive to the economic policy needs of the social order.

This dissent has not as a rule been comprised of criticism of theory or analytical rigor *per se*. The orthodox canards to this effect are not totally without basis perhaps, but they certainly do not capture the pivotal content of dissent. The dissenting traditions for the most part have been critical not of abstract reasoning *per se*, but of such analysis which is not sufficiently mindful of actual economic processes to avoid making instrumentally invalid or misleading abstractions. The challenge has never been aimed at the development of sophisticated technique but rather at sophistic technique which makes the simple appear complicated and ignores the really complicated aspects of economic phenomena.

This dissent is not necessarily ideological or political in its motivation, though often it does indeed seem that economic history is a subversive discipline. To study economic institutions in the process of formation and change does tend to undermine institutional inertia. If matters were once different, they can be different again. Nonetheless, the ahistorical criticism of economic method does not seem to be subversively inspired. After all, the problem of ahistoricity in the perspective of orthodox economics has been noted by no less than than Schumpeter (1954, pp. 12–13). Obviously, Schumpeter's lament was not the presence of analytical methods in the economists' toolbox but rather the paucity of 'historical experience' to supply substance for dissection by these methodological instruments.

Schumpeter meant by *historical experience* something more than mere familiarity with historical and inductive detail, though such familiarity is necessary. He meant by experience comprehension, interpretation, or perspective. With this distinction we can see that orthodox economics, even where empirical, is led astray by its lack of historical grasp. Recent criticism of product and income accounts is at least partially indicative of economists not knowing what is historically significant to be measured. Of late it seems that econometric models are more concerned with the articulation or testing of preconceived hypotheses than with generating descriptive information about actual economic processes. More recently again it seems that even economic history and economic anthropology have turned more to the verification of universal neoclassical truths than to the documentation of historical economic processes.

Several recent commentators on the state of the art in contemporary Keynesian economics have referred to the methodological problem of ahistoricity. In his recent examination of the 'limitations of Keynesian economics,' Gruchy (1974) places much stress on the failure of orthodox economists to recognize and integrate into their political economy the changes which have occurred in the economic system since the Second World War. Gruchy cites with much approval the view of Myrdal that economics is 'nearsighted' and lacks the requisite historical experience and vision to guide the economy beyond the immediate upturn or recession.

On the one hand, this means that economics tends to be out of date, fighting the last economic war. On the other hand, it means that economics lacks the long-term perspective necessary to be useful in economic planning. Economics is useful in reactive intervention to immediate problems, to crises already wreaking their havoc, but it is weak in foreseeing long-term difficulties and trends which are the working out of historical tendencies. To be of use for long-term planning, economics would have to view economic processes from an evolutionary and developmental perspective.

Robinson has recently called attention to the historical myopia of orthodox economics in an article dealing with the fate of the Keynesian revolution. She blames the followers of Keynes for distorting his contribution. Her view of Keynes's contribution makes of him an out-and-out institutionalist. In a section revealingly titled 'From Equilibrium to History and Back Again,' Robinson argues of Keynes's revolution:

> On the plane of theory, the revolution lay in the change from the conception of equilibrium to the conception of history; from the principles of rational choice to the problems of decisions based on guesswork or on convention.
> (1974, p. 7.)

Robinson goes on to argue that Keynes's followers, by ignoring economic structure and economic history, re-established equilibrium in Keynesian economic theory.

In so doing, Robinson finds that Keynes' interpreters so much distorted his paradigm that the Keynesian revolution has yet to occur, though it appears imminent.

> For a world that is always in equilibrium there is no difference between the future and the past, there is no history and there is no need for Keynes. Now, it seems that the bastard Keynesian era is coming to an end in general disillusionment; the economists have no more idea what to say than they had when the old equilibrium doctrine collapsed in the great slump. The Keynesian revolution still remains to be made both in teaching economic theory and in forming economic policy.
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> (1974, pp. 9, 11.)

Another close student of Keynes and economic thought, Paul Sweezy, is less convinced of Keynes's historicity than is Robinson. Sweezy (1953, p. 256) noted that 'Keynes could never transcend the limitations of the neoclassical approach which conceives of economic life in abstraction from its historical setting and hence is inherently incapable of providing a scientific guide to social action.' Later, Sweezy (1972, p. 87) saw no reason to alter this opinion: 'Keynes not only did nothing to overcome this profoundly antihistorical character of received economic theory; on the contrary, his example and prestige did much to strengthen it.'

Sweezy cites as a symbol of Keynes's ahistoricity, the famous dictum that 'in the long run, we are all dead.' In support of Sweezy, a quote from Keynes's *General Theory* can be added:

> I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use ... When 9,000,000 men are employed out of 10,000,000 ... (t)he complaint against the present system is not that these 9,000,000 men ought to be employed on different tasks, but that tasks should be available for the remaining 1,000,000 men.
>
> (1964, p. 379.)

Clearly, this quotation indicates that Keynes would have been quite comfortable with the neoclassical synthesis. Indeed, Keynes virtually states the neoclassical synthesis in the previous paragraph:

> [I]f our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practical, the classical theory comes into its own again from this point onwards . . . (T)here is no objection to be raised against the classical analysis of the manner in which private self-interest will determine (what, how, and for whom).
>
> (1964, pp. 378–79.)

Nonetheless, that so important a Keynesian as Robinson finds institutionalism or historicism to be the rightful heirs of Keynes is significant.

We do not raise the issue of Keynes versus the Keynesians in order to take a position on that controversy. For present purposes it is not germane whether or not the ahistorical character of contemporary Keynesianism is true to the spirit of Keynes's own vision. Rather, we mention the controversy to underscore the ahistorical character of contemporary Keynesianism and its importance in understanding the structural anomalies faced by orthodox opinion. A social science which is not in touch with the evolutionary process of history is susceptible to having the structure of its subject matter move on without it. This has been true of orthodox economics from its founding. Adam Smith reasoned about handicraft capitalism while the Industrial Revolution and absentee ownership arose about him. Economists persist in using and teaching the model of perfect competition despite the glaring reality of the modern corporate industrial structure.

Along the same line, Sharpe (1974, p. 4) recently quoted Myrdal to the effect that 'to be "behind its time" is the regular methodological weakness of establishment economics.' More truculently, E.F. Schumacher has charged economics with contemplating the optimum arrangement of deck-chairs on the *Titanic* while the iceberg of the Western industrial path looms near the bow. Even if doomsday not be upon us, we must worry with Sharpe about the fate of our discipline if we fail to correct our regular methodological weakness of girding up for the previous economic war. This fate may be the most distasteful one of ignorance. If we ignore the reality of economic phenomena about which people feel anxiety, they may well respond by ignoring us. As noted above, Galbraith has proposed a 'test of anxiety' by which economists can assess their work. If the content of economics research is addressed to the problems about which people feel anxious and if the results of the research lessen this anxiety by guiding ameliorative action, then the research passes the test of anxiety. Failure would exist if the research neglects popular anxiety or obfuscates the possibilities of action.

The fate of being ignored is all the more a threat to economists given the valuational anomaly. We have just said that ahistoricity is a major cause of the structural anomaly. The valuational anomaly can likewise be seen to rest largely on the ahistoricity of the orthodox economics perspective. The tendency to take values as given is an act of static theory construction while the commitment to study the process of value formation is a commitment to scrutinize the dynamic historical process. Values, like institutional structure, are a part of the developmental, emergent, becoming process that is history. They are inherently in flux and suffer only caricature within the fixity of static analysis.

The basis of the anomalies which frustrate economic thought is, then, that it treats the emergent process of social life as if it were subject to fixed verities. It follows that the palliative for our professional malaise is to place more emphasis on economic change and institutional and ideological adjustment. Fortunately, we need not start from scratch. Many scholars have maintained the lighthouse which can guide us in the reconstruction of our habits of thought. Our first task is to master the beacons provided by such social economists as Marx, Weber, Polanyi, the younger Clark, Veblen, Commons, Mitchell, and Ayres. Such contemporary economists as Dalton, Schweitzer, Gruchy, Heilbroner, Boulding, Sweezy, Galbraith, and Myrdal are contributing to this social economics perspective. There exists, nonetheless, a very definite need to encourage further efforts in the area of social economics.

Part Two
On Contemporary Political Economic Institutions

Neither worker nor consumer is ever really satisfied . . . Work and consumption thus share the same ambiguity: while fulfilling the basic needs of survival, they increasingly lose their inner content and meaning.

P.A. Baran and P.M. Sweezy, 1966

4 Legitimacy and Value in Corporate Society[1]

But power and economic value are a paradigm of social reality . . . The function of power is to ensure that measure of conformity which is needed for the survival of the group . . . Economic value ensures the usefulness of the goods produced.

K. Polanyi, 1944.

Few subjects of solemn inquiry have been more unproductive than study of a modern large corporation. The reasons are clear. A vivid image of what should exist acts as a surrogate for reality. Pursuit of the image then prevents pursuit of the reality.

J.K. Galbraith, 1967.

The purpose of this chapter is to assess the bases of legitimacy of corporate power which are found in the literature of political economy. These bases are found generally to be inadequate to the task, and the paper argues that nothing short of a reformation of our theory of humanity and human progress would prove adequate. This latter argument is contained in a final section which attempts to give an explicit overview of the obsolescence of our value orientation.

The procedure is first to establish a scheme of the traditional legitimation of corporate power, which, however simplistic, seems representative. The historic changes which appear to have severely eroded this traditional legitimation are then outlined. Next, some of the literature which has been addressed to the problem of corporate power legitimacy is summarized and appraised. The final section gives explicit attention to the question of value. This sketch is oriented from the perspective of what might be called the *practical theory of value* after Marx, or the *instrumental theory of value* after C.E. Ayres and John Dewey.

[1] Reprinted with permission from the *Nebraska Journal of Economics and Business* (1974).

Working definitions

Before proceeding, however, I must pause to lend some working substance to the nebulous concepts power and legitimacy. By power I mean the capacity to influence the allocation of society's resources and therefore the quality of existence in society. I am aware of the apparent restrictiveness of this definition and of Bertrand Russell's wise admonition in this regard (1938, pp. 9–11). However, the restriction to the econocentric perspective is more apparent than real. I am not saying that power must derive from control over wealth or resources and am thereby excluding charismatic or ideological sway. Kenneth Boulding's 'economy of love and fear' is very much included in the sources of power. One may achieve power in the sense defined by any of the many means on the spectrum from threat to affection. In other words, my definition does not imply a restriction on the source of power, but it does restrict the content or application of power to the realm of the real. My point is only that the exercise of power must effect the realistic or materialistic basis of human life. If I have made an error here, it is in an imprecise use of the term resources, but I trust my meaning is clear.

My concern is with corporate power because it is the element of private power which is most typical of our society. The other major center of power is the state, which is the subject for another essay (see Chapter 5; see also Fusfeld, 1968 and 1972). In giving my argument here, I resort to overstatement for emphasis, and this overstatement is almost totally bound up with neglect of the existence of a powerful state. Inclusion of the state would not, however, alter the thrust of my argument. This follows from the fact that the power of the state stands overwhelmingly in supportive or symbiotic relation to the private power here under attention.

> The thesis here is that protection of private property comes to dominate other interest (of the state); the natural law (of individual property rights and individual freedom) becomes coopted and transformed into the higher law of power (defense of the business system). Institutionalization of the higher law . . . in defense of corporate property involves a

> symbiotic relationship between the business, legal, and political communities.
>
> (Gramm, 1973, p. 579.)

By *legitimacy*, I mean that the power has been approved by the institutional expression of the value structure of society. According to Berle:

> Without a system of law or morals there is no way by which institutions can be built or power transmitted . . . (A) power organization . . . cannot long maintain itself unless it is supported by a more or less choate and accepted system of ideas and values.
>
> (1967, pp. 29–30.)

The legitimating idea system need not be of independent derivation or validity from the power in question. A power center endeavors to create or at least reinforce a self-serving idea system. This influence is subject to legitimacy by an idea system of independent validity. For example, in a pluralist society, there should be plural influences upon the idea system.

Berle adds that an important part of any legitimation process is the 'field of responsibility' which confronts the power holder, his institutions for exercising power, and even the thought system supporting the institutions. That is, there is some more or less formalized mechanism which holds the power system accountable to the thought system which justifies it. Berle (1967, p. 116) has pointed out the importance of this mechanism of accountability in a pluralistic society: 'Recognition of the field of responsibility and the organization of an orderly dialogue between it and the power holder are, precisely, the qualities of a democracy.'

TRADITIONAL LEGITIMATION OF CORPORATE POWER

Corporate power in its capitalistic environment, like private power in general, has been traditionally legitimated by the dual institutions, the competitive market and private property/free labor. According to the theory of the competitive market, the corporation, like the atomistic firm, faces a demand for its products which derives from sovereign consumer decisions. The corporation is a mere processing box which translates consumer demand into derived demand for the factors of production. The sovereign owners of the factors of production, property owners or free labor, similarly input demands to the processing box as they ask necessary supply prices for the services of their factors.

The fact that there are people in the form of corporate managers within the processing box causes no particular problem. The managers are constrained by their accountability to the commands of the sovereign consumer on the one side and by the commands of factor owners on the other. Those managers who fail the market test, by offering up either the wrong goods or the right goods at non-competitive prices or costs, are simply strewn by the wayside. In this way pluralist sanction is given the power – if that one can call totally constrained discretion – exercised by the corporate managers. Consumer and factor-owner sovereignty is but part of the overall popular sovereignty of the liberal society.

This dual economic accountability is reflected in the politico-legal sphere. The corporation in legal ceremony is an institution chartered to serve the public interest. In its original historic setting, the corporation was legally and substantially accountable to the charter-granting state for the public interest capacity of its actions. The modern corporation evolved from the trade monopolies and colonization companies chartered by medieval and mercantile governments (Weber, 1961, ch. 23; and Chayes, 1966, pp. 32–7). These governments chartered the corporations to expand the wealth and solidify the hold of the realm, and held them responsible for their charter.

With the rise of market capitalism and its intellectual expression in the doctrine of liberalism, the flow of accountability was passed from the state to the market/factor command dual. As Hamilton has observed:

> In the . . . order (of the nineteenth century) the market was the dominant agency of public control . . . [,] the dominant institution, and the service of industry to society was adequately taken care of through the economic law of supply and demand.
>
> (W. Hamilton, 1957, pp. 26 and 31.)

Similarly, Gramm has noted:

> With the effective elimination of the social constraint of law over the private discretionary, profit oriented use of property, the only remaining basis for social control was the competitive market itself.
>
> (Gramm, 1973, p. 588.)

In this social order, functional accountability to the state assumed a secondary role, although the legal ceremony of state chartering of corporations continued. In its new role, the state was to use regulation, antitrust, and similar police activities to maintain the corporation's accountability to the factor owners and the market.

The economist's view of the corporation as a mere variant of the atomistic firm (see Papandreou, 1952; and Brandis, 1966) has systematically excluded analysis of the corporation as an organic entity and led to neglect of the erosion of the traditional dual. This erosion involves, first, the separation of ownership and control, and, second, the growth of the range of discretion possessed by the corporation over its price and production policies. The separation of ownership and control has held a firm place in underworld economic literature since the seminal work of Berle and Means (1932; also Wildsmith, 1973). The essential thesis of this stream of literature is that control in the modern corporation has passed from the nominal ownership to a ceremoniously employed group of managers or technicians. Increasing stock dispersion, size of operations, and technical complexity are the usual factors given causal credit for this separation. These are elaborated below in the discussion of the imperatives of modern capitalism.

Concurrent to this development in the internal government of the corporation, a fundamental change was occurring in the external environment of the corporation. The corporation, increasing in absolute and relative size, began to exert considerable influence over the prices of its products. This influence, reinforced by the barriers to entry and product differentiation which spawned it, severely deadened the impact of the market test. To the extent that the corporate management can administer its prices, it possesses the power to tax or extract forced saving from its consumers. Of course, the corporate management is possessed of this power to extract a social fund only to the extent of the inelasticity of the demand for its products. That is, consumer sovereignty remains an upper bound on corporate tax power.

However, this upper bound has been steadily increased with the further evolution of the corporate system. Nothing so epitomizes this evolution as the development of the television medium. The social environment into which the technological innovation of television was placed has led to the use of the medium primarily as a device for mass manipulation. I refer not only to the blatant cajolation of the commercial messages, but also to the subtle selling of the 'American way' in the programming itself. One need not agree with the Galbraithian 'revised sequence' argument that the upper bound is nearing infinity to believe that the bound has been stretched enough to do serious damage to the legitimating capacity of the principle of consumer sovereignty (Galbraith, 1967; also Salgo, 1973).

RELEGITIMATION SCHEMES

In surveying various points of view concerning the relegitimation of corporate power, I resort to a somewhat arbitrary and clumsy classification of world views. It would be helpful if the reader would keep in mind that world views or theories not world viewers or theorists are being differentiated. That is, for example, one theorist may offer several theoretical variants.

Among those who would prefer to legitimate corporate power along the traditional dual lines, first consider the view that relegitimation is not necessary. This case for the continued validity of the dual is grounded upon the quest for and distribution of profits (see Peterson, 1965; and Jacoby, n.d.). Profit maximization is said to remain the dominant corporate goal. Social goals are sometimes attended to but only because they enhance profits. Where the quest for profits is lax, market power is the cause, not any fundamental change in the character of the economic structure. With respect to the distribution of profits, first, corporate acts of charity are not in conflict with owner interests. Neither are retained earnings which provide for long-term growth. And, finally, there is no indication that management salaries are excessively high. In short, legitimation by private property is accepted and asserted to be generally still in force, and implicit blame is placed upon antitrust laxity in such cases where the interests of private property are thwarted.

A similar view upholds the desirability of the private property/market dual as a legitimation device, but questions whether or not it is currently effective (Kaysen, 1966; Rostow, 1966; and Lewis, 1959). This view favors various schemes for making the dual operative again. On the one hand, more vigorous antitrust enforcement to maintain effective market competition is encouraged. On the other hand, various schemes for bolstering shareholder control are proposed. Examples of the latter are more information to stockholders, more adequate proxy rules, more vigorous Securities Exchange Commission enforcement of rules, professional shareholder representatives to oversee management decisions, pooling of proxies or other organizational behavior by small shareholders, and/or more vigorous surveillance activities by mutual funds or investment trusts.

A major criticism of the view that the traditional dual is or should be made operative is that it clashes with reality. There are various arguments which are touched on below to the effect that managerial, organizational, or technological imperatives exist which are incompatible with operation of the traditional dual. It is sufficient here to point out that the modern corporation is a dominant institution, which provides much of the dynamic logic of our culture through its enormous economic, political, and social power (Kaysen, 1957, pp. 317–19; and Mason, 1958, p. 2).

We should note also that historically the institutional regime necessary for the operation of the traditional dual carries within itself the seeds of its own destruction. The nineteenth-century capitalists competed not to remain atomistic and competitive, but to accumulate and expand. The evolutionary result of competitive capitalism is concentrated capitalism. Were it not possible to accumulate and concentrate, for what would the capitalists have competed? My argument is, of course, that any static vision of a competitive market society is ahistorical, and that any public policy to achieve a state of competitive bliss is unrealistic.

Relegitimation schemes grounded upon the imperatives of modern capitalism are sometimes managerialist, sometimes technocratic in emphasis. However, both stem from the same general set of phenomena in the evolution of capitalism. These similar bases are the organizational and technological complexities concomitant to the accumulation and concentration of capital, mass production technology, mass consumerism, and application of sophisticated science and technology to production. The basic argument is that the modern corporation requires planning and expertise which is not provided by the institutions necessary for the operation of the traditional dual. The market model with its increasing body of frictions and externalities simply does not capture the essence of modern capitalism. The convergence of the economic systems of the USA and USSR is often incorporated in one way or another in to these arguments to demonstrate the ineluctable working of the imperatives.

Although rudimentary stirrings of the managerialist view can be found at the turn of the century, and even more so in Keynes's 1926 view that the mature corporation tends to socialize itself, the creed in its mature form appeared after the Second World War. Probably in response to growing concern about ownership versus control and size and market power, the managerialist creed avows that the professional manager of the large corporation 'consciously direct(s) economic forces for the common good' (Sutton, *et al.*, 1962, p. 34). Reduced to barest essentials, managerialism implicitly admits the discretionary power of management and seeks to legitimate this power by appeals to professional management standards. The constituency for which management serves is broadened from the shareholders to society at large. The professional manager is said to consider the interests of the corporation's stockholders, its employers, its customers, and the general populace, and to make decisions for the good of all these interests. Arguments of sensitivity to public opinion are frequently suggested as serving to reinforce professional ethics in this reformulation of the harmonious society.

An interesting variant of this argument which anticipates Galbraith's *The New Industrial State* places management in symbiosis with the government, both working to sustain general economic health. This view recognizes the need for governmental macroeconomic planning, or more weakly demand policy, to sustain full employment, while corporate management provides complementary specific private planning (Sutton *et al.*, 1962, pp. 189ff).

The managerial argument is corporatist in spirit, stressing occupational or professional organization of society not unlike the guilds of medieval society, though with meritocratic rather than caste limitation of entry. In contrast to the competition relied upon by capitalist theorists to provide harmonious behavior, the corporatist theorists stress cooperation, mutuality of interest, and professional responsibility (Snavely, 1969, ch. 10).

Burnham's (1941) managerial society is an example of the corporatist view which leans heavily in the direction of elitism and statism. Burnham foresaw a state-based managerial class which would eventually result in three global blocs located on the industrial bases of North America, Western Europe, and East Asia (Sweezy, 1953, p. 41). Another interesting corporatist attempt to resurrect the harmonious society is Galbraith's theory of countervailing power (1956). Galbraith avoids the blatant elitism and statism of Burnham's corporation by having his blocs work through a pluralistic state. The sequence is one of powerful corporations having their power countervailed by associated labor or some other bloc with the help of the state where necessary.

The many critiques of managerialism, corporate conscience, or social responsibility can be reduced to two interrelated fundamentals – the lack of explicit choice mechanisms and the lack of accountability. With respect to the first, the managerial view offers no substitute for the market and consumer sovereignty as equilibrating, economizing mechanisms. That is, there is nothing to replace Adam Smith's invisible hand for monitoring preferences and offers to meet the preferences (Mason, 1958, pp. 3–4; and Rostow, 1966, pp. 64–7).

More fundamental is the second problem: managerialism offers no consistent principle of accountability. If efficient, responsible management has the power to do good, then inefficient, irresponsible management has the power to do bad. And managerialism offers no regular mechanism for replacing bad management without falling back on some variant of 'workable competition' (Sutton *et al.*, 1962, p. 360). Further, no matter how good management is in its quasi-governmental role, good government cannot replace self-government and retain consistency with a democratic framework (Lewis, 1959, pp. 394–5).

A most important extension of the accountability problem is the threat of fusion of the elites of the various blocs into a new totalitarianism. There is no safeguard against such a development if the power to manage society falls into elite hands. Lindbloom (1957) warns that corporations might do more under a banner of responsibility than under a banner of self-interest. He fears that managerialism will be used as a rationale for further expansion of corporate power. Harrington (1967) warns that we should not 'contract out' social goals to corporations because many of our social needs are aesthetic or non-economic and are not compatible with econocentric planning criteria.

Discussion of the technocratic approach can be brief since much is pre-empted by the discussion of managerialism. Indeed, the technocratic argument is essentially a managerialist argument without the managers, they having been replaced by the technocrats – an army of experts. This view was given early expression, not only by Veblen (especially 1963) and his followers, but also by Schumpeter (1962). Schumpeter's ship-steadying and creative destruction views on market power and the entrepreneurial function, and his institutionalization of the entrepreneurial function, are an important part of the heritage of technocratic opinion.

The technocratic argument finds cogent expression in Galbraith (1967; also 1973). The argument reduces to the beguilingly simple observations that a technological society is fundamentally dependent on expertise; that the expertise-bearing technocrats therefore run society; and that their motivation, even if reduced to self-interest, is fundamentally oriented to technological advance. This could easily be extended to claim legitimacy for the professional technicians in the fashion claimed for the professional managers. However, this is not Galbraith's logic. Within 'the new industrial state' scenario lies the fundamental shortcomings of technocratic despotism – enlightened, benevolent, or otherwise. This is the clear and present danger that material progress and the quality of life will be planned to fit the needs of technique rather than the reverse. At the bottom of this potential malaise is the familiar question of accountability. The technostructure is overriding its boundary conditions and increasing the degree of autonomy it possesses. In the process of freeing technical decisions from control by those technically incompetent, value questions concerning 'Technique for what?' are passing into the dominions of the technical strata.

Another body of literature approaches the question of corporate power from the perspective of political and legal doctrine. Many of the conclusions for social policy reached are common to the literature already discussed, but the perspective remains distinct and worthy of mention. The view approaching the question of corporate power from its politico-legal aspects has two basic features. First, it stresses the historical fact that the corporation is a legal facility for harnessing power toward socially desirable ends. According to Adams:

> Corporations ... were created for the purpose of enabling the public to realize some social or national end ... [I]n order to secure efficient management, a local or private interest was created as a privilege or property of the corporation. A corporation, therefore, may be defined ... as a body created by law for the purpose of attaining public ends through an appeal to private interests.
>
> (H. Adams, quoted by Miller, 1972, p. 63.)

As a corollary to this historical point, this view offers the opinion that the corporation loses its legal rationale whereupon it fails to serve the public interest.

> The corporation is a human invention to serve human, social needs. In theory, it is subservient both to the State that creates it and the market in which it competes. If the corporation does not fulfill its social obligations, under the theory, the State can amend or even revoke its charter.
>
> (Nelson, p. 1042.)

Second, this view emphasizes that the corporation, due to its socio-political influence and its legal charge, is not merely an economic but a political institution as well. The market, when operative, is but a convenient mechanism of accountability, not an end in and of itself. The thrust of this point of view is that the solution to the dilemma of corporate power rests in legal and political changes designed to structure the economy toward the common interest.

This institutional reformist viewpoint is divisible into two general classifications, although specific policy proposals are not so divisible. One class would limit the corporation's function and power to traditional econocentric considerations, minimizing corporate socio-political discretion and responsibility. This view differs from the traditional dual approach primarily in maintaining that more extensive reform is necessary than can be obtained from antitrust enforcement and hit-and-miss regulation. That is, the need is seen for the creation of systematic limitation of the corporation to its charter of producing the commodities which society chooses.

The second class of opinion takes a more positive approach to corporate power, saying 'You have power, use it thus,' rather than 'You inevitably retain some power, do *not* use it thus.' That is, the spirit of one class of opinion is negative and proscriptive, the other positive and prescriptive. As mentioned above, this cleavage of intent does not appear in the general policy proposals thus far offered. Hence, no attempt will be made to separate the two classes of opinion in the following brief survey of reform proposals.

The two fundamental proposals relate to establishing a system of ballot-box accountability and a system of judicial review. The ballot-box proposals differ in specific detail, but generally involve the expansion of the corporate constituency beyond shareholders to include employees, franchise dealers, and the general populace. The accountability mechanism varies from constituent representation on internal corporate decision-making bodies, to various external review boards to survey corporate activities. In general, all writers stress the need for more representative internal decision-making and for check/balance external power.

The judicial system proposals also involve internal and external reforms. Internally, it is proposed that provision be made for some mechanism for litigating grievances, franchise disputes, dismissals, and the like. This review mechanism should be separate from the legislative, executive corporate boards. Externally, either through a separate corporate review court or the existing court system, provision should be made for a right of appeal and body of last resort.

Usually coupled with these fundamental proposals are secondary, reinforcing proposals. For example, many proposals include provision for increasing corporate reliance on capital markets by limiting retained earnings and improving the content/enforcement of proxy regulations. Others would provide review boards to oversee mergers, price setting, patent uses, and international corporate activities. Still others stress the need to limit corporate use of pension funds, stock options, seniority rules, and the like which tend to restrict the mobility of people among corporations (Schweitzer, 1968, mimeo).

These reformist proposals are too diverse to be evaluated in any detail as a group; nor would itemized evaluation prove very profitable. However, one general problem can be noted. All of these approaches neglect the very power they are discussing in one important context, namely how this power is to be prevented from interfering with the implementation of the reforms. Politico-legal ideals did not prevent the concentration of wealth and power and it is naive to expect such ideals to confront and negate that power.

In sum, legitimation of corporate power via the traditional dual of market and factor-owner constraints is no longer possible. The politico-legal ideals demonstrate clearly the illegitimacy of the modern corporation *vis-à-vis* the value structure of our liberal culture. The imperatives of modern capitalism arguments demonstrate not only the process by which the traditional dual has been made obsolete, but also that this obsolescence is irreversible since it rests upon irreversible technological and organizational changes. However bright burn the reactionary, Romantic idylls in our psyche, we cannot set the clock of history back to some real or imagined golden age.

Notwithstanding the merit of the insight thus provided, neither the politico-legal reform proposals nor the imperatives of modern capitalism arguments provide an adequate basis for legitimating corporate power. The imperatives arguments offer no device for holding the corporate managers or technocrats accountable to the public purpose. The reform proposals are entered as *deus ex machina* to counter the inconsistency of the facts of power with the ideals of pluralism, but without adequate attention to the problem of legislating and implementing the reforms without having them distorted by the powers that be.

This is not meant to deny that action to negate the power of the corporate leviathan must be political in nature, designed to turn the power of the state toward effective corporate regulation. Rather, the point is that the scope of corporate power is not adequately appreciated. There is a great difference between re-exerting discipline over an institution which is refusing to do what the popular will tells it to do, and one that is telling the populace what the popular will wants it to do. The question of value in corporate society is examined in the next section.

VALUE IN CORPORATE SOCIETY

In previous sections, I have questioned the legitimacy of the management of our principal productive institutions. I wish to conclude by suggesting that the obsolescence of our legitimating mechanisms and the inadequacy of their potential successors are related to the obsolescence of our theory of value. This is most easily accomplished by considering the philosophic roots of our value orientation. It is no accident that we refer to economic goods, and not to economic bads or economic indifferences. Similarly, income and consumption connote good. Income represents the capacity to command economic goods and consumption the exercise of this capacity for personal use.

The philosophically positive connotation of this terminology stems from two interconnected bases. First, the fact that income and consumption are taken to represent the choice-capacity of individuals affords liberalist sanction. Our cultural dedication to the proposition of individual liberty accords well with the model of consumer autonomy and sovereignty. Second, and fundamentally related to the question of value, is the presumption of instrumental or practical value behind the terminology. (See Chapter 10.) By instrumental or practical value I mean loosely contributing to human progress. The term *practical* is used to refer to Marx's *praxis* – creative productive activity (Stanfield, 1975b). Instrumental value theory is, of course, most closely associated with the names of Veblen, Dewey, and Ayres. That which furthers the survival and development of the species is progressive. In the early capitalism in which the terminology of economics received cultural vogue, the material basis of life was relatively low and additions to income and consumption met relatively well-defined and objective needs. In addition, as discussed above, the competitive market effectively constrained the product mix of productive institutions in accordance with consumer demand. In this setting there existed a strong presumption that additional output was indeed good in the sense of advancing the human condition.

Incidentally, any argument by would-be economic scientists that the terminology under discussion, whatever its origin, need not be ethically charged only abets my case. I refer of course to positivistic arguments that income and consumption are merely taxonomic categories to aid in analysis and prediction. The abandonment of the value element involved in a shift to a positivistic theory of price is a symptom of the obsolescence of the theory of price equals value. Such a shift also renders the theory meaningless since meaning can only derive from human valuation (Ayres, 1962, ch. 4).

At any rate, we need to enquire whether or not income expenditure on an object of consumption any longer necessarily certifies the object as valuable or good. From the low economic surplus of early capitalism, we have moved to a high surplus economy. Indeed, it can be argued that a great deal of our output today is not only surplus but superfluous. Although my attempt (1973) to measure the economic surplus touches a bit on the economic superfluous, it has not to my knowledge been measured or even adequately conceptually defined. Still, much of our resources devoted to advertising, planned functional obsolescence, packaging and design obsolescence, and military programs must surely fit the category. Implicit in this judgment is, of course, the definition of the economic superfluous as that output or resource use which is not progressive in the sense earlier defined.

In addition to these inherent characteristics of the commodities, there is the process by which they are sold. I refer most especially to the incessant advertising and similar efforts designed to assure rapid commodity turnover. There is in addition the state's limited redistribution of income designed to sustain aggregate purchasing power. The upshot is that some income and consumption have become non-income and non-consumption *vis-à-vis* their philosophic bases. The liberalist sanction and presumption of instrumental value behind commodities disappears if the individual is manipulated into purchasing the commodities.

I should clarify one point. I am not saying that consumptive desires were once independently generated by the individual. Man has always experienced the world about him through culturally conditioned senses. I am not referring to this general cultural want creation as manipulation. My argument is rather that now our consumptive desires are systematically and purposefully influenced to meet the needs of the corporate system. We live in a corporate culture – a culture which is shaped to a large degree by and for the corporate system. We are accustomed to considering as governance the capacity to coerce resolution of preference conflicts or to overrule a preference which leads to anti-social behavior. But a far more subtle governance is the influence exercised by the corporate system over the formation of preferences.

Our principal productive institutions have the means of persuasion, including political power, to clear their products from the market. Given our custom of presuming value to what is sold, incremental output becomes self-justifying, as does the behavior of corporations to produce and sell the output. Any argument that this behavior is illegitimate by way of being non-accountable is unconvincing in the face of this process of self-justification.

We shall begin disengagement from this quandary when we recognize that the corporations are not producing what and how much we choose as meeting our needs, but rather what meets the needs of the corporate system, and that this production does not therefore necessarily represent valuable behavior. Following that, we can get down to the complex task of using the political mechanism to 'amend or even revoke' the general charter given our corporate system to sustain the growth of commodity production.

5 On the Crisis of Liberalism[1]

It is at this last point in particular that the crisis of liberalism and the need for a reconsideration of it in terms of the genuine liberation of individuals is most evident. The enormous exaggeration of material and materialistic economics that now prevails at the expense of cultural values, is not itself a result of earlier liberalism. But . . . it is an exaggeration which is favored . . . by fixation of the early creed.

J. Dewey, 1935.

Liberalism is facing a severe crisis. Crisis indicates an impending change of direction and orientation. In addition, the term is commonly inferred to indicate that the change is to be dramatic and caused by the ineffectiveness of the prior direction or orientation in providing for some set of felt needs. In both systems for ordering society and systems for ordering thought, crisis has meaning as a situation in which the prevailing institutions and world views fail to meet some critical set of needs and suffer a decline in authority and ability to provide cohesion. The modern classic concerning crisis in thought systems is Kuhn (1970). Ward (1972) and Stanfield (1974a) have applied Kuhn's discussion to economics. Wallace (1972) has suggested a generalization of the paradigmatic change model. The abundant literature on crises in social systems is reminiscent of the Marxist literature on an institutional configuration becoming a fetter on further progress.

The emergent crisis in economics involves the elusive question of relevance. For whatever combination of pressing social issues, disenfranchised youth, extension of formalism in economics, and persistent political economic critiques of formalism, the last decade has witnessed an increasing demand for relevant economics and a resurgence of intra-disciplinary

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methodological debate (see Heilbroner, 1970; and Samuelson, 1972). This chapter is not intended to explicitly review the relevance issue in relation to pressing social issues or methodological debate. Rather, the argument is that liberalism among economists is irrelevant to modern reality from the perspective of the historic quality, content, or meaning of liberalism.

LIBERALISM

Defining liberalism is a humbling task, yet reliance cannot rest entirely on the congruence of various preconceptions on the matter. Therefore, some hopefully adequate working definition or characterization of liberalism must be given. The quality of liberalism includes at least three principal elements. First, it is secular or humanist in its stress on improvement in the human condition in the here and now. The expansion of the quality of human life is considered to be a fundamental moral good and to furnish the criteria for moral judgment of human activity.

Second, liberalism places much emphasis on individual freedom and initiative. The meaning of freedom and whether individual freedom is a goal unto itself or an instrument toward a higher goal is rather ambiguous. (It is argued below that this ambiguity is part of the current crisis of liberalism.)

Third, as Girvetz (1966) has noted, liberalism implicitly contains a critical attitude toward the extant institutional configuration. If the continuous endeavor to expand the quality of human life is a fundamental moral good, it follows that the continuous critique and reform of the institutions which shape human life is a fundamental moral imperative. To sum up, for this chapter, the quality of liberalism is found in its humanism, individualism, and criticism.

To elaborate, consider the historic context of original liberalism. As it flowered in and around the eighteenth century, liberalism was the philosophical expression of the overthrow of medievalism and mercantilism. Medievalism or feudalism was a functional caste society in which each person had a place by birth and had all the rights and responsibilities thereto. Economic decisions for society and for individuals were made on the basis of tradition.

Mercantilism overturned much of feudalism, opposing feudalism's tutelage by tradition and lordly or priestly authority with tutelage by the state. However, mercantilism was largely a transition phenomenon. Paternalistic tutelage was held over from feudalism, but the institutionalization of the market was occurring. Mercantilism was sort of a stopgap, providing answers to the questions required for economic order until the market grew sufficiently strong to take over. As the market grew stronger, mercantilism lost its *raison d'être.* At first an institutional response to provide the cohesion which feudalism had lost the authority to provide, mercantilism became obsolete as soon as the market could provide this cohesion in better fashion.

Original liberalism was the philosophical expression of the rise of the market or free enterprise system. It was profoundly humanist, serving to awaken man to the possibility of a better life in this world. In sharp contrast to the medieval perspective that the economic pie is fixed, liberalism stressed the potential for economic growth. In contrast to mercantilism's economic growth by beggar-thy-neighbor internationalism, liberalism argued that economic growth is a result of capital accumulation, division of labor, and technological advance (Wilson, 1964).

Liberalism here was decidedly individualistic. In reaction to the Tory paternalism which won a late victory in the Speenhamland laws and to the mercantilist interventionist state, liberalism was strongly opposed to public assistance and to state intervention in price-setting or resource allocation. It can be argued that liberalism was not so much anti-state as pro-market. Public assistance and state meddling in pricing or allocation would have cushioned the impact of market forces and detracted from the power of the capitalist class which was rising with the market. However, state action in support of the market and its class affiliate has been ever present in the evolution of capitalism. Thus, it would be more correct to say that liberalism re-shaped the nature of state intervention to fit the needs of the business culture.

At any rate, its birthmark left liberalism with a distorted view of individual freedom, which remains largely one of freedom from government dictation rather than freedom to or even freedom from private dictation (Ayres, 1961, ch. 11; Meszaros, 1970, chs 5, 6, 9). The opposition to all but a very base level of public assistance demonstrates effectively the distortion of freedom. The cushioning of the stick of deprivation would have interfered with the right of free labor to be forced to work under private capitalist dictation.

A final remark on the individualism of original liberalism which will be important below is the reason for the importance accorded individual freedom. In the era of original liberalism, a low material basis for society hindered the expansion of the quality of human life. Individual initiative and responsibility provided an effective spur to productive advance. It seems to the author that individual freedom was seen not as an end in itself, but as instrumental toward increasing material efficiency and production.

Finally, original liberalism was fiercely critical of the institutions of medievalism/mercantilism. Adam Smith's *Wealth of Nations* was dedicated to supporting the rise of market capitalism. The behavior and attitudes commensurate with the market organization were given the sanction of meshing with the natural traits of humanity, in contrast to what Smith saw as 'imbecile institutions.'

TODAY'S LIBERALISMS

For discussion of modern liberalism, it is necessary to establish two poles on the political spectrum. The terminology libertarian versus modern liberal is used here rather than the more common conservative versus liberal advisedly. The term conservative is historically variable and therefore ambiguous, and much of the opinion commonly identified as conservatism in our government is a slowness to act rather than principled denial of the wisdom of action (Galbraith, 1955, p. viii). In contrast, libertarian refers to a more or less definite intellectual tradition, marked not by slow-witted lack of dispatch, but by reasoned advice against government intervention. Moreover, the use of the term underlines the common heritage of the two poles of opinion. It is not an exaggeration to trace both back to Adam Smith's classical synthesis. The libertarians, roughly the body of opinion represented by the Chicago School, agree to the specific and limited state functions as given by Smith. Contrariwise, liberals, the neo-Keynesian mainstream, stress the principle stated by Smith that the state should undertake activities which although in the general interest are unprofitable to private concerns (see Stanfield, 1973, ch. 3).

The libertarian wing is less in harmony with reality. Their principal characteristic is their opposition to government intervention. They believe that, except for rare occasions, the market process provides more satisfactory answers to questions of economic organization than the political process. In the words of Stigler (1965, p. 53):

> I shall mean by a conservative [libertarian] in economic matters a person who wishes most economic activity to be conducted by private enterprise, and who believes that abuses of private power will usually be checked, and incitements to efficiency and progress usually provided, by the forces of competition.

Stigler's comment was meant to and does apply in general to the full spectrum of economists at least in so far as their analytic system is concerned. It applies, however, with much greater force to the libertarian end of the spectrum.

Thus, the libertarian would rely on the impersonal automaticity of the competitive market rather than on intervention through the more personal force of political power. Virtually all government intervention is seen as reducing freedom, especially intervention in the form of social welfare legislation which cushions the impact of the stick or of progressive taxation which eats away the carrot of the market forces.

The libertarian's attachment to a static, idealized conception of competition is ahistorical. In contrast, the Schumpeterian gale of creative destruction captures the dynamic of entrepreneurial capitalism. It points up not only the incentive to change and efficiency provided by the market, but also the market's self-transcendence. Like Marx before him and Galbraith after him, Schumpeter (1962, p. 83) recognized that flux or disequilibrium is the essence of reality: the process of creative destruction refers to the incessant change of the system from within. As Marx argued, the internal logic of entrepreneurial capitalism is accumulation and concentration of capital. The successful entrepreneur or capitalist adds to his fund; the unsuccessful loses his fund and becomes a wage-earner.

From this process and the legal construct of the limited function joint-stock company emerged the modern corporation to meet the changed needs of the social environment. The corporation at once circumscribed risk due to limited liability and allowed the undertaking of large projects through pooling of funds. The process of creative destruction had reached a new era as associated capital came to dominate the remnants of entrepreneurial capital leaving a battleground of stalking giants. History shows that uncompromising competition quickly became unacceptable and had to be circumscribed. The giants continued to compete, but not unto death; the giants in the twentieth century recognize the right of each other to exist.

The other 'factor of production', labor, similarly found association to be a necessity of life. In the era of associated capital, labor could ill afford to compete among itself. The long, arduous battle of associated labor against associated capital ended with a truce; mutual recognition of the right of the other to exist and circumscription of the area of contention (Galbraith, 1955, ch. 2).

The Big State, which facilitated the Big Labor–Big Capital truce, grew in part to fill this mediator role and similar needs related to industrial relations. In addition, many of the other phenomena giving rise to the Big State are bound up with the growth of Big Capital-Big Labor, either directly or in deriving from much the same technico-organizational roots. Underconsumption crises, world wars of redivision and other facets of militaristic imperialism, massive socialization of the costs of modern industry, and support of blocs for which organization is difficult are among the principal features giving rise to the Big State (Ayres, 1946; Sweezy, 1968; Baran and Sweezy, 1966; Kapp, 1971; Galbraith, 1956; Shonfield, 1965; and O'Connor, 1973).

These are the outlines of the society in which we live. It is no wonder that antitrust crusaders find anti-competitive actions in situations of little importance or in which prohibition of the actions protects non-competitive entrenched powers (Galbraith, 1967, p. 196). The heart of our industrial system is no longer organized upon competition and there is thus no purpose for actions to evade competition. Our concern should rest more with the fusion of the ostensibly countervailing power blocs of state, corporation, and labor than with the red herring of collusion between the remnants of competition which probably remain competitive due to some inherent barrier to association.

Papandreou (1972, pp. 78–80) points up well the argument with respect to the libertarian:

> ... Technically, but only technically, the market mechanism still allocates resources to uses. The underlying reality can be understood best by reference to an example of a planned economy – where the planning authority relies on the market mechanism to allocate resources, but where, also, it substitutes its own preferences for those of the consumer... Suppose now that instead of a public planning authority we are dealing with a huge corporation in private hands that owns (directly or indirectly) all productive units in the economy. Such a super-monopolist has no less power [than would the planning authority] ... With this interpretation, Galbraith's argument – that in the modern industrial state planning is superseding the market – has an important and revealing meaning.

This meaning is, of course, that far from acting to constrain the power of the corporate behemoths, the market serves as an instrument for the implementation of their power.

Turning to the liberal end of the spectrum of modern liberalism, it should be noted again that Stigler's conservatism *vis-à-vis* the competitive market applies with some force to the liberals. However, this is expressed more in the liberal's rationale for state intervention than in argument against such intervention. The liberal stance is one of justifying state intervention by market failures or other qualifications of the market principle. From the relatively specific and limited interventions mentioned by Adam Smith, the interventionist state has grown in economic theory through such analyses as natural monopolies, diminishing marginal utility of income, tax-bounty, social costs/benefits versus private costs/benefits, demand and structural unemployment, and externalities.

This evolution reaches an apex in Musgrave's (1959) classic trichotomy of allocative, distributive, and stabilization interventions. Musgrave's treatment is important not so much for adding any specific functions to the state's role, but for his assimilation and refinement of the literature. In one of those grand synthetic statements of which classics are made, Musgrave took the principles on the role of the state laid down by his predecessors and molded them into a unified doctrine which could be termed the *Musgravian state.*

In the Musgravian state, we find highly refined articulation and classification of the justifications for intervening with the political ballot box to adjust the solution of the economic ballot box. The nomenclature of social wants, wherein the exclusion principle necessary for market monitoring of preferences is inoperative, or of merit wants, wherein the market is overly or underly stingy, is far more elegant than the diffuse and often cumbersome principles provided by Pigou, Lerner, and others. This elegance creates an aura of scientific legitimacy around state intervention which lends a degree of respectability to public activity despite an environment of predominantly laissez-faire mentality.

Moreover, the Musgravian state provides a quantum leap in generality. Its conceptual structure is sufficiently abstract to be stretched to encompass an indefinitely wide range of activities into the state sphere. This is especially true of the highly elastic merit want concept under which virtually any state activity could be found conceptually valid. The only proviso is that political consensus should afford a positive or negative value on some commodity beyond the valuation given by the market. Stated bluntly: state intervention to overrule the market's preference-monitoring is justified if the polity finds merit in doing so.

This is probably as the matter should be. The market is an institution geared to monitoring a limited variety of needs, private needs shall we say, and our political institutions are potentially amenable to a more complete range of our needs. And, of course, the proviso that political consensus be present does throw the weight of pluralist legitimacy behind the Musgravian state. Apparently, economic theory is once again to be political economy. But not so fast. Are economists of the Musgravian state really willing to sacrifice the theoretical determinateness they have for so long enjoyed? (Oligopoly is not the only 'gateway to institutionalism;' political economy is as well.) When we ask this question, we reach an exposed nerve of the Musgravian state which has indeed retained the traditional penchant of economic models for a priori determinateness. This retention in the face of the obvious complexity of political economy is achieved by using political consensus as a *deus ex machina.* Merit wants, the optimum distribution of income, and the rate of achievement of both are given politically and are of no concern to the economic scientist *qua* scientist.

Essentially, the attachment to the competitive market and its attendant powerless social actors is transferred to the political arena. Similar to the classical business firm constrained by atomistic competition, the liberal finds the state constrained by a plurality of atomic political interests. As uncritically as the libertarian relies on the competitive market and its foundation of consumer sovereignty to provide for human progress and individual liberty, the liberal relies on voter sovereignty. Similar to the libertarian's refusal to recognize the erosion of the legitimating capacity of the market (see Chapter 4), the liberal fails to delve into the crucial issue of wealth and power in the political process.

Thus, for example, the state is justified in building highways to socialize a share of the costs of the automobile industry in particular and the agglomeration economies of industry in general. This is true despite the fundamental irrationality involved from the social perspective. The agglomeration economies thus afforded business must surely fail to offset the social costs of workers' travel time, pollution, road provision, and so on (Goodman and Goodman, 1960, pp. 82–4).

But, of course, people do buy cars and they are sovereign consumers; and they do want roads to drive them on and they are sovereign voters. The people have spoken: what could be more democratic? There is no need to stir up the troubling problems associated with the constraints within which the people must choose: such questions as the lack of adequate mass transit and the obnoxious character of industrial districts. It is unpleasant and unhealthy to live near one's place of work, and the automobile is virtually the only commuter means available. Of course, there is more to the story: the love affair with the automobile. But here again there are vexing questions concerning the origin of the strong desire for privatized transportation.

The perhaps familiar point is that a theory is only as good as its assumptions. Economics has a history of hiding important questions in its assumptions, such as the mass of psychological tenets involved in the history of subjective demand theory. In arguing for state intervention on the basis of political sovereignty, without addressing himself to the nature of the political process and the shaping of the preferences there reflected, the liberal assures himself of elegance at the cost of relevance.

Thus, modern liberalism in both its liberal and libertarian cloaks is irrelevant to the current age in so far as one construes relevance to mean bearing a relation of the quality of liberalism to the quality of human existence in current society. The dilemma of modern liberalism is largely one of neglecting the valuational problem of human existence. By this reference is not to the familiar argument that economic theory is positivistic, value-free, and therefore value-empty. Quite to the contrary, the support of competition and of state intervention both derive from the value structure of liberalism. Nor is it the author's wish to challenge the basic liberalist value orientation. Rather, the lament is that economic theory is content to retain specific institutional expressions of this orientation uncritically, and that it is content to deal with the process by which values are monitored to the neglect of the process by which they are formed.

To a significant extent, the voluntary choice model is wrong even on the surface. The heads of associated capital, of the state, and of associated labor make many of the choices without explicit formal ratification. Reference here is to what might be called the involuntary economy after Ralph Nader, though for clarity the involuntary polity should be added to form the *involuntary society*. Attention is called to items such as advertising, planned obsolescence, packaging changes, and similar sales competition wastes in the private sector, and to the activities of a far-flung entrenched bureaucracy in the public sector which consumers and citizens are 'choosing' through prices and taxes without an item veto.

On a more subtle plane, even where formal ratification is made through political or economic 'choice', economic theory accepts the choice too readily. The hypothesis that there exists an involuntary society, a socialization process by which the behavior and attitudes of people are systematically conditioned and exploited, deserves far more attention than it is given by economic theorists. If economics is a science of choice, is it not as inadequate to rely on revealed preference as it is to assume psychic hedonism? Is not the formation of choices more important that the choices made, or does the end somehow justify the process? As David Hamilton (1973, p. 509) has pointed out, to 'observe that we are "motivated" to reach for [an] apple by the desire for the apple leaves much to be desired' in the analysis of human behavior.

The use of advertising to manipulate consumer purchasing habits is only the most obvious example of the phenomena in question. No doubt advertising in order to sell products associates the products with distorted fantasies of various modes of human expression. But a more subtle and pernicious propaganda is found in the programming which interrupts the commercials. Here the 'American Dream,' 'the American Way,' the ideals of a culture are presented as fact as actors parade about as noble statesmen, dedicated doctors, and concerned businessmen.

Beneath the appeal of advertising and blind patriotism is alienation. Self-actualizing behavior is not generally developed by the current institutional structure as creative, spontaneous expression would disrupt the orderly bureaucratic routine. People are plugged into and out of their institutions as functional objects, without control over their life-process. Conditioned to deny their human needs and to behave as objects, they are unable to find meaning for existence or modes for expressing their humanity in their day-to-day lives. Deprived of active modes for self-expression, they respond to the fantastic associations of ad men, politicos, rabble rousers, and clergy. They are susceptible to emotional appeals which offer salvation through belief in non-existential beings, importance through military power, purpose through messianic democracy, sexuality through huge automobiles, scapegoats in ethnic minorities, or hope in a temporally distant political revolution.

The question of what it means to be human, and with it any relevance to the questions of human freedom and progress, have slipped out of economics. Thus, the opposition of liberal versus libertarian tells one very little nor is resolution and synthesis likely with so little at stake. As Galbraith (1955, p. ix) once argued about the substance of economic debate in the early 1950s:

> The argument . . . is that the present topics of economic controversy have seen their best days . . . [T]his does not mean that there has been any diminution in the noise of battle.

> Where the art of controversy is well developed . . . a very small amount of substance will sustain a very great deal of fury. My case is only that the substance back of most of our current economic arguments is, indeed, rather slight.

One could only add a Shakespearian remark on sound and fury.

TOMORROW'S LIBERALISM

Contemporary liberalism is then in the service of reactionary historic forces which threaten to return man to paternalistic tutelage of his life (Orton, 1950). The battle over whether the paternal elite should be public or private is increasingly irrelevant as the distinction in practice between public and private blurs evermore. Liberalism suffers a cultural dilemma of having goals to which there is no access in the current institutional structure. The values of liberalism retain their particular expression in institutional forms which befit an earlier time but not the current one. As now structured, neither the market nor the political process serve the quality of liberalism.

It will come as no surprise that for the author the dilemma is systemic and not the working of unusually sinister personalities. Rather, the logic of the institutional structure accounts for the dilemma. This systemic logic is geared to the expansion of the production of commodities. As such, it once served well in a period when the limiting factor on human progress was a low material base. The first enlightenment was involved with a process of stripping away medieval traditionalism and giving play to the forces of quantitative materialism. Moreover, this quantitative materialism became institutionalized in the Protestant ethic, and in a power structure based upon the logic of accumulation and expansion. The modern corporation and the society about it are inexplicable without reference to this expansionist urge. The use of advertising, packaging, and functional planned obsolescence to speed up replacement of consumer goods; the fantastic depletion of the natural environment; the far-flung economic empire and its military attaché; and the massive state intervention to socialize certain costs and stabilize purchasing power: these are the dynamic features of the expansionist institutional structure.

As a start toward a new departure, liberalism must recognize that more in general is progressive only if too little in general is the factor delimiting progress. If the limiting factor be not an aggregate problem but a sectoral or distributive one, then more in general is a stupid strategy. Hence, a new enlightenment is needed which embodies a qualitative materialism stressing not the level so much as the composition of economic output. Here and there, such as in decent housing and recreation areas, more is no doubt needed. But it makes no sense to provide housing for the low-income people by giving them jobs producing superfluous commodities. 'Trickle-down' may be a correct scientific hypothesis, but that does not make of it admirable social policy.

This new enlightenment and qualitative materialism would require a return to basics. The rededication of liberalism must start with a reformulation of the meaning of humanity and human progress. Individual success must be redefined in terms of *knowing and doing*, rather than simply *having* consumer goods. Of course, the individual must have enough, but he must most importantly know what to do with what he has. A part of the current malaise is that material objects are so many and pass through people's lives so rapidly that they have neither the time nor the ability to do anything with them or to develop any knowing for the human creativity which produced them.

Beyond the reformulation of the meaning of humanity, liberalism must regain its critical attitude. The systemic institutional irrationality has been mentioned above. But this macro-institutional critique is only a guide to the important work to be done. Stress must be placed on the composition rather than the level of output. This implies a microeconomic orientation in the traditional economic parlance, and of late such a reorientation is occurring. Liberalism needs also to return to the micro level and critique specific institutions.

With this reformulation of human nature and micro-institutionalism would come a restatement of individualism. The paradigms for the individual who knows and does much are those of the artist and scientist. A critique would be levelled at institutions as to whether or not they produce persons with the capacity for creative craft and thought. Most importantly, institutions would be expected to produce persons willing and able to participate in the decision-making for a complex world society. Instillation of the critical attitude throughout the populace, and not mere replacement of one emotion-fed dogma with another, is the proper quest of liberalism.

Advocacy that all have the opportunity to express themselves in art and science means that all would have the opportunity to do science and art, not be scientists or artists in the elitist sense of the terms as now employed. There are those who argue that such elitism, of meritocratic origin, is necessary as incentive for human development. They should consider the probable quality of art and science in a world in which all persons were active in art and science. If anything has been learned from the study of human history, it is that science and art develop from new combinations, and that the more diverse the pool of artistic and scientific endeavor, the greater the combinatorial capacity (Ayres, 1962, ch. 6).

This then is the outline for a liberalism to match the current age. The quality of humanity is in *praxis*, the capacity for creative knowing and doing. The need exists to criticize institutions upon the moral criterion of expansion of this humanness, and channel the power of individualism to that expansion.

6 Consumption in Contemporary Capitalism: The Backward Art of Living[1]

Industrial capitalism of the twentieth century, constituted by corporate-dominated mass production and mass consumption, has as its aim the equation of the good life with the goods life.

D.M. Brown, 1988.

The problem with the rat-race is that even if you win, you're still a rat.

G. Steinem.

This chapter is prompted by what justifiably may be labelled the *paradox of affluence,* by which we mean the deterioration in quality of life despite or because of sustained growth in consumption (Danner, 1974; Bookchin, 1974; Seabrook, 1978). This proposition is unlikely to startle anyone with its novelty but it is subject to considerable controversy and topicality that justify efforts toward more systematic discussion. This chapter first reviews Mitchell's old but remarkably fresh discussion of the backward art of spending money, then turns to more recent literature on the question of consumer competence. The suggestion is that a large gap exists between the responsibility assigned to consumers and their ability to fulfill this role. This gap is then put forward as resolving the paradox of affluence, which in turn suggests that social progress awaits a new practical philosophy which is materialist in the proper sense of the term.

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THE BACKWARD ART OF SPENDING MONEY

A start toward resolving the paradox of affluence is provided by Mitchell (1950, pp. 3–19) who examined a specific aspect of the general tendency of capitalism toward uneven development. He noted how little the art of consumption management had progressed relative to that of business administration since the shift in the locus of production from the household to the specialized institution of the business enterprise. He saw faults in the administration of consumption that would bankrupt a business enterprise and expressed the opinion that 'the vast majority [of households] would gain as much from wiser spending as increased earning' (Mitchell, 1950, p. 3).

Mitchell (1950, pp. 5–9) suggested several causes for this retardation in the art of consumption management. He noted that the institution of monogamy and the importance assigned to the privacy of family life contribute much to the lack of progress in the art of spending. Western culture had shown little interest in experimenting with alternative modes of household organization. The basic pattern of the patriarchal nuclear family was not subjected to much criticism, and virtually none was given along the lines of efficient administration. The door remained closed, by and large, to the conscious application of scientific and technological progress to the organization of household life.

Mitchell also cited the problem of scale and its many concomitant limitations upon the efficiency of spending. The smallness of scale severely delimits the household in the pretesting of commodities, division of labor in household organization, and use of machinery. The tasks of the household manager are varied, as is the range of commodities involved. Little in the way of task specialization is permissible, and an understanding of the physical and functional characteristics of the extensive range of commodities is beyond the capacity of one individual. There is little room for the development of a professional orientation on the part of the household manager, nor is managerial talent an important variable in the process of mate selection. The result is that household managerial competition is inoperative, and there is no process by which the highly competent can rise to executive positions directing the administrative and functional activities of the run of the mill. Moreover, short of professionalization of such administration, innovations in the area are largely confined to individual units and not diffused into the wider society. Innovations may occur, but at best they are revealed to a small group of friends.

Mitchell also noted the limited character of the scientific fields relevant to household administration. Industry is based in good part upon physics and chemistry, while the household manager needs information on child development, nutrition, and the like. In Mitchell's time, the science and mechanical arts relevant to the business enterprise were much more developed than those relevant to the household. The result is that the latter is operated on principles derived from folk wisdom and tradition. 'Until such time as science shall illuminate the housewife's path, she must walk in the twilight of traditional opinion' (Mitchell, 1950, p. 12).

Apart from the lack of scientific information relevant to the household, there is the added problem of dissemination. Mitchell (1950, pp. 18–19) was relatively sanguine about the spread of physiological and psychological knowledge, once it became available. He noted that women's magazines and clubs provided, if only incidentally, ready forums for popularization of scientific knowledge. He stressed the need for incorporating effective householding training into educational curricula and for developing programs leading to doctoral degrees in 'domestic science.' These professionals would, like their peers in other fields, endeavor to expand the cause-and-effect knowledge relevant to householding through research and to extend the reach of such knowledge through teaching and consultation activities, such as 'giving expert counsel to the newlywed [or] holding free dispensaries of advice for the indigent' (Mitchell, 1950, p. 19).

In addition to all these problems, Mitchell (1950, pp. 13–16) cited two limitations that would yield but slowly, if at all, to the process of rationalization steadily pervading modern life. First, he noted that the goals and valuations of the household are not so clear-cut as those of the business enterprise. The household administrator has for an objective function the all-round development of children and the all-round support of income earners. These objectives are not as well defined as the profits-obey-the-law framework which confronts the business executive. In other words, the domestic executive faces considerable intangibility in the benefit-cost calculus. This alone deprives the domestic executive of much of the considerable advantages of business method, especially accounting. A strong case could be made that the executive in the modern corporation faces a far less facile objective matrix. As the corporation has grown in extent and influence and as a 'managerial revolution' has occurred, the doctrine of corporate social responsibility has proceeded apace. This widening scope of the corporation's social charge has expanded the executive problematic. In the process, considerable intangibility has been introduced into the corporate managerial task. Recently, interest in corporate social accounting has arisen in response.

The second intractable limitation is Veblen's *invidious comparison*. Emulation, invidiousness, and the drive to excel one's cohorts in pecuniary prowess directly contradicts rational householding because a 'habit of extravagant expenditure' is necessary to place in evidence one's pecuniary status (Mitchell, 1950, p. 15). Even those who become aware of this irrational mainspring may deem it necessary to go along and *keep up appearances* in order to *get on* in a world in which invidiousness predominates. A person such as Veblen can resist such influences and lead a life of substantial independence and considerable isolation. But among more ordinary folk it is only those 'individuals with an aberrant temperament [who] can in the long run retain their self-esteem in the face of the disesteem of their fellows' (Veblen, 1953, p. 38).

Mitchell begins with some rather prosaic concerns, perhaps even tongue-in-cheek curiosa, and ends on a profoundly philosophical note. In his closing paragraph, he observes that expected improvement in the dissemination and quality of householding techniques will not allay anxiety over the basic human problem of evaluation. Especially for the more insightful and reflective, 'the ends of living will always be a part of the problem of spending money – the part that is most inspiring and most baffling . . . There is a scheme of values embodied in every housewife's work . . . [which] affects . . . the health, the tastes, the character of those for whom she cares and those with whom she associates' (Mitchell, 1950, p. 19).

Mitchell's closing remarks indicate his vision, derived in large part from Veblen, that the principal barrier in industrial capitalism to a meaningfully abundant life is excessive *habituation.* Habit removes from situations and responses the humanizing element: the act of judgment in light of available cause-and-effect knowledge and recognition that a scheme of values is involved. Consciousness that one is always manifesting a set of value judgments will, it is hoped, generate a critical, and deliberate orientation. Value judgments would then be made consciously to manifest individuals' relevant knowledge of cause and effect and their interpretation of the human condition. The individual's behavior would then be an expression of the human will and intelligence. The concern of such thinkers as Mitchell, Veblen, and Marx with rationalization of production and consumption is too often distorted in interpretation and made to appear insensitive to the larger life problems of meaning and ethics. To the contrary, they sought to clear the way for such problems by minimizing the waste of time and resources in the organization of production and consumption. For them, as for Socrates, the unexamined life is not worth living.

THE QUESTION OF CONSUMER COMPETENCE

There has been considerable progress in many of the areas discussed by Mitchell. Consumer organizations have arisen which are devoted to testing and reporting on the price and function of products. The government has undertaken extensive regulatory programs aimed at protecting consumers in product areas where the knowledge of the lay individual is likely to be inadequate. The government also conducts or requires business to conduct research on the efficacy and safety of consumer products. Such activities have altered conditions prevailing in Mitchell's day concerning scale limitations on product testing and application of scientific knowledge. There has also been a dramatic increase in formal educational curricula in the area of domestic science. Most large universities have colleges which offer baccalaureate and advanced degrees in home economics and sponsor extensive research and development in the area. The concomitant increase in professionalization is indicated by the societies and journals in home or consumer economics, child and family development, and nutrition.

Given this considerable progress, Mitchell's more prosaic concerns probably cannot account for the paradox of affluence. We believe, however, that his more profound remarks toward the end of his essay point in the right direction. The argument made here is that, despite the considerable progress already noted, and taking into account Mitchell's statement that, for the thoughtful, the ends of living must always be a part of the problem of spending money, the social practice of consuming has fallen still farther behind the times.

Consider first the intensification of invidiousness and habituation (Creighton, 1976, p. 102). The doctrine of insatiable consumer wants is solidly entrenched in conventional economic thinking and practice. The theoretical abstraction of insatiability does conform to the actual social practice of democratic industrial society. Economists who have delved into the nature of the insatiability postulate have identified its invidious roots. The most famous discussion is Veblen (1953, p. 39) who observed that 'no general increase of the community's wealth can make any approach to satiating this need, the ground of which is the desire of everyone to excel everyone else in the accumulation of goods.' One need not, however, turn to a dissident such as Veblen to find the linkage between insatiability and invidiousness. In refusing to display the characteristic classical aversion to the stationary state, the younger Mill (in Abbott, vol. 2, 1973, p. 164) commented: 'I know not why it should be a matter of congratulation that persons who are already richer than anyone needs to be, should have doubled their means of consuming things which give little or no pleasure except as representative of wealth.' In a similar vein, Keynes (1963, pp. 364–5) noted that the source of insatiability of human need is the existence of a class of need which he referred to as 'relative in the sense that we feel them only if their satisfaction lifts us above, makes us feel superior to our fellows. Needs . . . which satisfy the desire for superiority, may indeed be insatiable.' More recently, invidiousness would seem to be a necessary if implicit ingredient of Hirsch's (1978) 'positional economy.'

It is important to note that, although the needs for social esteem and even invidious distinction may be insatiable, it is not inevitable that they be expressed through an endless spiral of commodity consumption. As Scitovsky (1977, p. 119) has noted, the search for status is insatiable only if it is tied to a one-dimensional variable such as income and consumption. Refinement in the appreciation or practice of art, athletics, music, literature, or gourmet cooking has more dimensions and qualitative standards of achievement which permit status satiability. Aficionados of art and music are not prone to ranking themselves by the number of paintings seen or concerts attended. This means that the connection between invidiousness and insatiability is sustained by social custom or habituation. The desire for a particular life-style or standard of living is motivated by the need to evidence one's belonging to society or a given rank within it. The norms of consumption, and the relevant peer groups to emulate or outdo are learned; they are matters of habituation (Veblen, 1953, pp. 80–2; and Scitovsky, 1977, p. 116).

This brings us to a fundamental point: the overwhelming tendency in democratic industrial society toward *identifying human needs with commodities.* (We use commodities here to mean objects or services produced for exchange as opposed to produced for direct use. Although the effect of commodity production is widely referred to as reification, the reference is not to things in the tangible sense; services can be commodities, and things can be produced for direct use. Reification then means to objectify and render mindless and soulless, to dehumanize.) The identification of needs with commodities is a learned orientation; it is 'the ruling socialization pattern which encourages persons to interpret their needs solely as needs for commodities' (Leiss, 1976, p. 92). There is a commodity bias in highly commercialized societies (Hirsch, 1978, pp. 86–91). People are habituated to seek satisfaction in consumable commodities by the concrete social practice of the 'high-intensity market setting' (Leiss, 1976, pp. 27–8). This habituation is obsessively oriented to earning and having more because the fixation on commodities as sources of satisfaction is one-dimensional, and progress and refinement become largely quantitative orientations.

The term *fixation* is important because it indicates the neurotic character of identifying needs with commodities. Marx's discussion of commodity fetishism is apt and, indeed, was prescient. Commodity production perverts social relations and social psychology. Social relations are reified, made to appear as relations among things or commodities, rather than among people. Mystification, that is intellectual obscurantism and confusion, results, and social consciousness is blind to the direct relations of production. The market nexus and technical idiom appear to govern economic behavior and the sovereignty of the capitalists is hidden. The relations of producers in the division of labor are similarly mystified. The needs of people for one another appear to them as needs for money, the expression of commodity values. Some of Marx's (vol. I, 1967, pp. 71–83; and 1964, pp. 148–51) strongest invective was levelled at money-making and its perverting influence. More recently, Leiss has ably expressed the perversion of commodity fixation.

> The sphere of material exchange . . . is extended ever more deeply into the psychological domains. The needs for self-esteem and self-actualization are expressed and pursued through the purchase of commodities . . . There is little inducement for individuals to transcend their fixation on the world of objects – indeed, this would be directly contrary to the innermost tendency of . . . social practice which systematically orients personal activities toward the acquisition of ever-larger sets of commodities.
>
> (1976, p. 57.)

This mystification is intensified in modern capitalism by the increase in advertising and salesmanship and the decline in consumers' ability to relate their needs to the array of available commodities. The increasing role of salesmanship is one of the most characteristic features of modern capitalism. US advertising increased 400 percent in the twenty years after the Second World War, compared to a doubling of GNP and private consumption. It has been estimated that the 'average American is exposed to sixteen hundred advertising messages per day' and 10,000 radio and television commercials a year (Linder, 1970, p. 72).

Advertising intensifies mystification because much of it, although not all, does not provide relevant and accurate information. Linder (1970, p. 71) argues that a major function of advertising is to transmit 'ersatz information' to consumers who lack the time to acquire and utilize sound information and 'genuine insights.' In expending their incomes, consumers' decisions thus take on the *semblance* of informed choices. Advertising provides mystified information and contributes to the separation of commodity characteristics from the level of technical understanding of the general populace. Ewen (1977, p. 107) cites the example of the 'mystified technical idiom' used to introduce a new shaving razor; a follow-up study of purchasers insisted on the importance of the advance though none could explain the advert's meaning.

Advertising copy need not be expressly inaccurate in content in order to enhance mystification; the information may simply be irrelevant. Much advertising is aimed at establishing a connection, however fanciful or ludicrous to the intellect, between a norm or desirable status and the commodity to be sold.

> Messages about things transmitted in advertising link goods with certain images of well-being which serve as the background texture for the stimulation of desire. This background texture is often composed of traditional images of well-being drawn from social situations which have largely disappeared from everyday life: a slower pace of life, quiet and serenity, open space, and closeness to the natural environment (images of rural life); contributing to the happiness of loved ones (images of family life); attainment of goals in accordance with personal rather than institutional demands (images of success in non-institutional settings); a sense of familiarity and security in purchasing goods (images of craft skills); a concern for quality and good judgment (images of discerning tastes).
>
> The advertisement's composition connects background imagery with products which have not the slightest intrinsic relationship to it: the automobile or cigarette package displayed against a stunning picture of unspoiled wilderness, or the liquor bottle set in a farmhouse room full of handcrafted furniture. Clearly the attempt is being made to transfer the positive feelings presumably evoked by the background imagery to the product which is so arbitrarily associated with it.
>
> (Leiss, 1976, p. 89.)

That the relationship made between the value and the commodity is ludicrous means only that the message is aimed not at the intellect or critical consciousness, but at the subconscious or subliminal level. Religious metaphor is used to sell concoctions which remove dirt and stains (sin) from clothes and produce whiteness (purity). The demeanor and dress of individuals in many ads suggest the authority of the medical profession and the objectivity of the scientist (Leymore, 1975, pp. 73–4).

Advertising sells not merely specific commodities in particular messages but also a way of life (Ewen, 1977, pp. 37–9; and Leymore, 1975, pp. 35–6). The unifying theme of advertising taken as a whole is to inculcate and reinforce an *ideology of consumption* (Leymore, 1975, p. 70; Ewen, 1977, pp. 54, 108–9; and Leiss, 1976, p. 57). This ideology leads people to seek life through commodities, to solve their frustrations and problems and establish social bonds with one another through commodities. Of course, advertising does not work alone; the message is transmitted through other media of symbolic expression, such as television programs, popular magazines, and even political discourse. Nor is the matter solely one of ideology or attitudes; concrete obstacles exist to fulfilling many needs through work, political participation, social interaction, or community activities. Indeed, virtually the whole social milieu of mature capitalism is saturated with the equating of all needs to commodity needs. This is a process of circular and cumulative causation in which advertising is here a result, there a means, and there a cause of commodity fetishism. We do not yet fully understand this saturation process; we have yet to sort out cause and effect, primary and secondary determinants, or active and passive causation. It is clear, however, that the saturation exists and that it is a very serious social problem. It is equally clear that salesmanship and advertising play an important role, at a minimum preying upon the confusion inherent in this saturation.

A second source enhancing mystification in modern capitalism is consumers' inability to make informed and competent judgments about their needs *vis-à-vis* the available array of commodities. As Leiss (1976, p. 15) argues that consumers lack adequate *craft knowledge* – 'kind of knowledge that seems appropriate for judging the suitability of things in relation to the objectives of our needs is the knowledge that is applied in craft skills . . . Craft skills require an intimate knowledge of the materials which are used in the realization of an objective.'

Two of the factors responsible for the decline of consumers' craft knowledge have been discussed, the identification of needs with commodities and the role of advertising in the saturation of the social milieu with the ideology of consumption. To the extent that people attempt to fulfill non-commodity needs by increased consumption, there is *per se* a serious lacuna of craft knowledge in that one aspect of such knowledge is the capacity to judge whether the craft and material involved bear any relation to the given objective. The inaccurate or irrelevant information provided by advertising is clearly an impediment to consumers gaining craft knowledge.

Once again, these abstractions do not operate alone but in concert with concrete factors which militate against consumers gaining, maintaining, and exercising adequate craft knowledge. Some barriers are inherent in the nature of modern commodity production. Leiss points out that the number, variety, rate of turnover, and intricacy of consumption commodities militates against an individual consumer being able to have craft knowledge of more than one or two types of products. He notes that in supermarket commodities alone, about 1,500 new products appear annually. Moreover, 80 percent of these are taken off the market within the year and replaced by a new assortment (Leiss, 1976, pp. 14–15). Murray Bookchin has emphasized the processed and synthetic character of food products, as well as the fact that their production is controlled by manufacturers rather than directly by consumers, as is the case in household production. He refers to 'nutritional anarchy,' by which he means the consumer's 'attempt to plan a healthful diet depends to a great extent upon chance' (Bookchin, 1974, pp. 90, 93).

None of this is particularly new. In 1929, Richardson (quoted by Ewen, 1977, pp. 165–6) noted that 'modern methods of production make it impossible for the homemaker to know the quality of the materials which go into manufactured articles;' it is 'impossible for the homemaker to have command of all the information demanded to buy intelligently.' She also recognized the role of advertising, referring to the 'psychology of clever advertising . . . frequently pitted against the common sense of the homemaker, with the result that she is worsted in the struggle.' Richardson also saw that increasing commodity production reduced the control of the consumer and, along with advertising, thereby reduced the craft knowledge of the consumer.

To the nature of production and commercialization must be added another factor, implicit in the above discussion, which operates against consumer craft knowledge: the increasing scarcity of time. The most systematic discussion is found in Linder (1970, pp. 7–10). Since consumption is time-consuming, *ceteris paribus,* more consumption increases the scarcity of time. The principal and, indeed, sole attention conventionally given to the consumption–time relation is that output or demand is measured or conceived as occurring over some time period: haircuts per month, hamburgers per week, coffee per day, and so forth. More haircuts, hamburgers, or coffee per time period is conventionally regarded as an unambiguous increase in well-being. But this neglects the time factor in preparing, enjoying, or understanding the commodity; more of a commodity is not necessarily better if the consumer lacks the time to select, prepare, and enjoy it properly. Of course, it is the time to consume *well,* a philosophical standard, which is short, and not the time to consume statistically.

THE TREADMILL SYNDROME

Our resolution of the paradox of affluence is now in view: in the quest for *more* things in life, people have failed to develop the art of living. We use *art of living* as a shorthand expression for the art, science, and philosophy of everyday life. The meaningful human life requires examination based on knowledge of aesthetics, cause-and-effect, and ethics. Ever-increasing consumption increases the scarcity of time and time pressures prevent consumers from gaining craft knowledge. The commodity production economy distorts the pattern of human needs by creating a fixation on or making a fetish of consumption. This fixation and the concomitant time pressures obscure the nature of non-commodity needs and reduce the attention given to them. Even in the area of commodity needs, Leiss (1976, p. 90) alludes to a 'developing shallowness and triviality' because people are oriented toward using an extensive array of commodities and have little time or competence for a more intensive usufruct.

A corollary thesis is that the deterioration of the quality of life in the democratic industrial societies occurs not merely despite, but largely because of, the pace and character of economic growth. Further growth along current lines adds little if anything to the quality of human life and fails to match the costs incurred. By distinguishing human *time resources* from the other factors of production, that is things, it can be argued that the time taken away from leisure, family life, and cultural appreciation – in short, from developing the art of living – in order to sustain the present growth pattern is more valuable than the benefits of that growth.

The current pattern of economic growth in the industrial democracies does not provide progressive fulfillment of human needs because people lack the competence effectively to relate their needs to commodities. The current pattern of consumption is passive, invidious, neurotic, and self-justifying. In contrast, the competent practice of consuming would require an activist orientation based on reasonable preparation in the art of living. This preparation and its exercise would require that time resources be devoted to research and reflection on the nature of the good life. The competent consumer must be *aware* of the importance and social responsibility which attaches to consumer decision-making, *informed* about the characteristics of commodities, and *able* to make effective judgments about their relations to his life and the natural habitat (J.B. Stanfield, 1979). The current patterns of income and consumption, and their growth, here called the *treadmill syndrome*, are inimical to the art of living because they usurp too much of people's time resources, leaving inadequate time to practice the art of living.

The basis of the treadmill syndrome is to be found in the very factors that gave the industrial social order its initial strength. The material incentives of individual gain, initiative, and upward mobility have fostered economic progress to an extent which was scarcely imaginable only a few centuries ago. However, largely unchecked by social responsibility and based upon a naive ecological understanding, this protean institutional complex is also a prescription for the social and ecological disaster of uncontrolled growth. The emphasis on individual material incentives and the growth and technological change thus served have tended to obscure other necessary motivations and values. Foremost among these are the decline of *civitas* (civic and social responsibility) and *philia* (fellow-feeling and reciprocity). This in turn cripples the individual's capacity to find meaning and purpose in life by degrading the social relationships and bonds from which meaning and purpose flow (see Chapter 9).

The organization of work is also a factor. The drive for growth has led to an incessant revolution in the techniques and organization of production, tending always to the fragmentation and routinization of work. This reduces craft knowledge and pride of workmanship and makes it difficult for the worker to find meaning and self-respect in this basic human dimension. The individual has been cut off from the active interaction with nature once provided by work and sees little point in labor except to secure income with which to buy things.

The treadmill syndrome thus begins when income and consumption become the ends rather than the means of life. Self-justifying commodity production (see Chapter 4) follows, and attention to the art of living is sacrificed in favor of acquiring an ever-larger flow of income and consumption. The seeds are thus sown for a pernicious ambiguity between human needs and their relations to things. Time pressures, the vast array and complex character of output, and the incessant cajolement to buy generate a decline in consumers' knowledge, indiscriminate buying, and a passive reliance on experts.

The result is the treadmill syndrome. People exert themselves to secure a given income and consumption level, only to find themselves dissatisfied with it. Cut off from many avenues to fulfillment, they identify welfare with commodities and redouble their efforts to secure income. This further strains their time resources, diminishing their competence in the art of living and their meaningful social interaction, so that newly achieved levels of income and consumption still leave them dissatisfied; they then set off in pursuit of still higher levels of income and consumption.

The solution of the treadmill syndrome must come from individuals who achieve a new consciousness of their mode of living and a new understanding of the relationship between their needs and commodities. This, in turn, must lead to a reallocation of resources so that people spend more of their time learning the art of living and less in the pursuit and care of things as ends in themselves. The demand for things will be reduced by increasing the satisfaction and joy gained from a lower volume of things. Knowing and doing more about or with things necessarily reduces the volume of things that can be used and the amount of time devoted to acquiring income.

A few examples of the reallocation of time resources may be helpful. Decreases in the work week and flex-time arrangements are already being tried. A commitment to take advantage of increasing productivity by more free time rather than increased income is another example. More time could be devoted to improving the quality of work life and less to increasing quantitative productivity. More attention should be given to civic affairs, family life, and appreciation of nature. Wise buying and more meaningful use of commodities could be substituted for buying and using more. To paraphrase an old cigarette advertising slogan, people need to be consuming less and enjoying it more.

We are not denying that the household is the appropriate seat of sovereign power. To be consistent with the liberal image of the good society, there is no substitute for the tenet that the individual is the best and most appropriate judge of his or her needs. The call is not for a denial of the cherished value of household sovereignty, but for a renewal and strengthening of that sovereignty based upon a new practical philosophy, to wit: that sovereignty can only be exercised by individuals who are competent in the art of living. What is the general shape of this philosophy? Its fulfillment requires sound information and competent judgment, and the responsibility of the consumer is great. An activist orientation in this context requires that consumption be recognized as a material process not basically different from what is called production. Both are social and technological processes by which nature (including human nature) is molded into forms befitting human needs and purposes. Both require the application of human skill, knowledge, and imagination, and both require precious time resources in addition to material ones.

7 Institutional Economics and the Crises of Capitalism[1]

The idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society . . . Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way.

K. Polanyi, 1944.

Nowhere has liberal philosophy failed so conspicuously as in its understanding of the problem of change . . . The elementary truths of political science and statecraft were first discredited, then forgotten . . . erased from the thoughts of the educated by the corrosive of a crude utilitarianism combined with an uncritical reliance on the alleged self-healing virtues of unconscious growth.

K. Polanyi, 1944.

This chapter is concerned with institutional change in market capitalist society. The history of this social order is one of persistent crises. These appear in myriad guises and levels such as aggregate stabilization crises, environmental and resource crises, crises of demographic adjustment, urban crises, and the crises faced by laborers, business enterprises, or local communities faced with economic obsolescence. Institutional change has largely consisted of reactive response to one or another such crises.

The analysis of this article rests upon a twofold factual tendency of the market capitalist social order. On the one hand, the market institution has tended to be imperialist in that its logic of commodity production and exchange extends into all

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aspects of social life. This tendency is so pronounced that the interventionist state, itself largely a collective response to the problems generated by the imperialism of the market, is seen in commodity terms in that the market criterion of efficiency is applied to state activities. But efficiency is a concept which implies a given objective function and the state is a process of collective expression from which such objectives flow. The state is not a means to social life; rather, it is itself one aspect of social life on a par with family, church, and friendship. The state can be insensitive and cumbersome, but except for public enterprises, it cannot be inefficient. That family, church, and friendship are not immune to the market mentality only underscores the imperialist tendency of the market.

Alongside the tendency to commoditize social life, there has existed a second and contrary tendency. Societal groups throughout the history of capitalist society have banded together to intervene protectively against the impacts of the market domination of social life. Polanyi (1957, pp. 132, 76) spoke of these two interrelated tendencies as the 'double movement' of the nineteenth century, which

> can be personified as the action of two organizing principles in society . . . The one . . . aiming at the establishment of a self-regulating market . . . the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization . . . Society protected itself against the perils inherent in a self-regulating market system – that was the one comprehensive feature in the history of the age.

It is a mistake to ascribe to these interventionist activities any unifying ideological predisposition or institutional means (Polanyi, 1957, pp. 145–50). Political activities to wield the agencies of the state are not the sole means employed. Labor organizations, citizen action groups, trade associations, cartels, and even the corporate institution itself can he said to have gained their *raison d'être* from their defiance of the market imperative. They represent various political amalgamations to curb various impacts of the market imperative.

It is this twofold tendency which accounts for institutional change in market capitalist society and which therefore needs exploration and understanding. It is the intent of this chapter to show that orthodox economics cannot provide this understanding, that institutional economics can, and that this understanding inherently generates a planning ideology. It is important to note at the outset that institutional economics is here defined broadly to include such scholars as Marx and Polanyi as well as the American institutionalists.

ORTHODOX SOCIAL ECONOMICS

The orthodox tradition of Adam Smith and subsequent mainstream articulators comprises a social theory of market capitalism. This theory envisions a social organization in which the market represents the principal mechanism by which economic activity is coordinated and controlled. In this orthodox social economics, the self-regarding and calculating actions of individual citizens, when processed through the information network of the competitive market, are seen as providing sufficient behavioral cues and controls for economic activity. Given the imperialist tendency of the market mentality, the routine caveat that only economic behavior is involved in economic theory does not significantly alter the strength of this vision.

The orthodox social economics of the autonomous market is critically defective. The root of its defects is to be found in what Polanyi termed the 'fictitious commodities,' land, labor, and money or purchasing power. A commodity is an object produced for sale on the market. As Polanyi (1957, pp. 176, 72) noted:

> It is not for a commodity to decide where it should be offered for sale, to what purpose it should be used, at what price it should be allowed to change hands, and in what manner it should be consumed or destroyed. . . . But labor, land, and money are not commodities. . . . None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious.

Land is the primeval source of all life and with labor the primeval source of human life. Money or purchasing power is the medium for coordinating society's productive and consumptive organization. Labor is not dissociable from the human beings who possess the power to perform it. To subject labor power to the whims of the market is to subject human beings to it. A commodity which meets no effective demand has no worth, but human beings are inherently worthy. Likewise society would not, could not, allow land to be subjected to the commodity logic. Land is too basic to life, too fundamental to the very existence of society. This understanding was communicated in clear if extreme terms by a Northern Blackfoot Chief: 'As long as the sun shines and the waters flow, this land will be here to give life to men and animals. We cannot sell the lives of men and animals; therefore we cannot sell this land.' Even money, the symbol of the market, is too fundamental to society for such treatment. The periodic destruction of productive organization and the lives therewith entwined is a strain no society can weather.

Faced with the threat posed to its very existence by the market mentality, society responded to protect itself. The protective web of society has been thrown around labor by unionization, women and child labor legislation, health and safety legislation, public welfare provisions, and limits upon the workday and workweek. Conservation activities and land use regulations have steadily sought to protect the natural environment. Economic stabilization policies, central banking, trade associations, and other regulatory tendencies have sought to protect the social organization of production from the threat of the commodity fictions.

These protective activities have continued to the present time and comprise the institutions variously labelled the welfare state, the corporate state, or the organizational state. Recent trends, indeed, portend a dramatic extension of protective intervention. Guaranteed annual incomes and welfare rights bid to remove even the stigma of the dole from labor power which the market has discarded. Environmental protection and technology assessment are being interpreted in broadening fashion to include general social and distributive impacts as appropriate matters for collective concern. The control over investment and its location is increasingly being treated as a matter of social policy and not as an automatic right of accumulated purchasing power.

In short, Polanyi paints a poignant picture of *interventionist drift* in market capitalist society. The liberal world view and institutions of that society tend always to establish the market and its commodity fictions as the sole means of social governance. Just as steadfastly, society tends always, through various personages and institutions backed by various ideological viewpoints, to protect itself. The *primacy of society* as the foundation of human existence is the lesson of recent history. Its corollary is that market capitalist society is not only an 'unknown ideal,' it is an unknowable ideal.

Orthodox economics has failed to penetrate the commodity fictions – witness the futile history of the supply function of labor. Given the fictions inherent in its paradigm, orthodox economics has been beset by many problems, two of which concern us here. First, orthodox economics has been unable to provide a theory of institutional change in market capitalist society (Stanfield, 1989). Its theories lack social context in that they are concerned with market society and not market capitalist society. The adjective *market* is important in that it indicates the prevalence of decentralized decision-making. But the adjective *capitalist* is required to complete the picture. It indicates the nature of power and social stratification. The importance of accumulated purchasing power is seen clearly as *power* in light of the fictitious commodities. The power to buy and sell the fictitious commodities is the power to impose one's will, or worse, one's side effects, on others. To administer land is to administer the fount of human life, and to administer money is to administer society's productive organization. Unaware of the social implications involved, orthodox economics could hardly be in a position to assay society's protective response to these implications.

Second, failure to penetrate the commodity fictions has condemned orthodox economics to the side of a false ideal. The self-regulating market and its laissez-faire corollary are as false as the commodity fictions which they ignore. The idea that the market will somehow provide has blinded generations of economists to the primacy of society and the necessity of conscious social control of economic activity. Even the modern liberal economists firmly implanted in the interventionist drift serve more as symptoms than cures. Their litany of market failures, externalities, and collective wants provides us with one of the more telling phrases in their lexicon – the *justification of state intervention.* The market ideal is so strong that our collective governance itself must not intervene without special dispensation.

Moreover, the liberal justification of intervention provides us a symptom of the interventionist drift. It is at least as severe a fallacy to maintain that only piecemeal, reactive intervention is necessary as it is to maintain laissez-faire itself. The fallacy of laissez-faire glares; that of piecemeal intervention is obscured. This part-truth has numbed society's economic mind with the comforting thought that flaws were slowly but surely being corrected, that fingers were ineluctably plugging the holes in the dike. But like the fabled new clothes of the emperor, the dike itself is not there. The market is not self-protective. Society instead requires protection from the market and this will require planning. Clearly, interventions may be multiplied *ad infinitum* but will never constitute planning.

Planning in turn will require planning institutions and a planning ideology. Orthodox economists, so long as they fail to penetrate the surface of market capitalist society and expose to their own eyes the false ideal therein, will be a definite drag on the effort to generate a planning ideology. This does not mean that some orthodox economists will not rally to the cause of planning. They probably will and some already have. But they will be impotent in developing a planning ideology so long as their basic paradigm contains the myth of the autonomous market. They will be in the same position as their pre-Keynesian orthodox ancestors who advocated stabilization policy without a theory to support such policy (Blaug, 1968, pp. 654–63). In more pensive moments, they will no doubt fret about the distortions of the market allocative process caused by state activities. No doubt also they will seek a planning which achieves the outcome which the perfectly competitive market would achieve if only it could exist. But this would be totally subversive of a planning ideology. Such an ideology must espouse conscious collective action to replace and not resurrect the market. It is no good to protect society from the ravages of the market in the name of the market. As Polanyi (1957, p. 177) said of nineteenth-century intervention:

> The natural aim of all social protection was to destroy such an institution [as the market in which human labor is a commodity] and make its existence impossible . . . To argue

> that social legislation, factory laws, unemployment insurance, and, above all, trade unions have not interfered with the mobility of labor and the flexibility of wages, as is sometimes done, is to imply that those institutions have entirely failed in their purpose, which was exactly that of interfering with the laws of supply and demand in respect to human labor, and removing it from the orbit of the market.

It is likewise intolerable to espouse planning which would make the market function in closer accordance with its competitive model. The ideology of planning must openly call for a new order and not a new scheme to remedy the old.

INSTITUTIONAL CHANGE IN MARKET CAPITALIST SOCIETY

With the above view of orthodox economics in mind, we can now sketch a theory of institutional change in market capitalist society which I believe to be derivative from institutionalist theory. It is not the intent, either in this section or the next one dealing with the planning bent inherent in institutionalism, to document a case from the institutionalist literature. The concern is with the import of institutionalist economic theory to contemporary reality and not with the personal political preferences of our institutionalist ancestors. More succinctly the concern is with what institutionalism means today and not with the epistemology of what it meant to one or another institutionalist 'great man.'

The market capitalist institutional configuration has been characterized by rapid and continuous change. When viewed across any fairly comprehensive spectrum of social phenomena, this change has no historical equal. The recent history of political institutions, science and technology, demography, wealth production, and culture presents a breath-taking panorama of change. It is all the more curious, therefore, that the orthodox economics of this social order imagines its structure to be eternal and virtually changeless. The coexistence of institutional flux and a relatively invariant, often even complacent, economic theory leads the curious mind to seek a relation. It is a good maxim for social science to seek meaning from paradox. The relation in question is easy enough to discover: a theory of change in capitalist society undermines the ideological and power structures of that social order. As shown above from Polanyi's work, such a theory of institutional change reveals the myth of the autonomous market and its correspondent ideology. The same theory reveals that society has been caught in the throes of an *interventionist drift* to protect itself from the impacts of trying to live up to the market myth.

In seeking to comprehend the nature of change in market capitalist society, it is useful to employ the concept of *institutionalized externalities.* By externalities is meant simply those impacts of a particular decision which fall upon persons other than the decision-making entity. This is the standard definition of the term raised somewhat as to level of generality. The term institutionalized externalities underscores the opinion that such external effects are the rule rather than the exception in market capitalist society. That is, the structure of property rights and incentives in this society are such that external impacts are quite common.

The structure of social choice over investment is the most compelling example, especially if generalized to include public investment and the structure of political power. The importance of this category derives from the importance of the utilization of the economic surplus in determining the character of a society (Stanfield, 1992b). In capitalist society, the bulk of discretion over investment rests with those who control accumulated purchasing power. More or less constrained by public opinion, but never inordinately so, the capitalist class and its functionaries have been the seat of power owing to their influence over the investment decision. Theirs has been the power to make decisions concerning the development of science and technology, the location and level of economic activity, the structure of work, and so on. Their decision matrix variables, the criteria of their private benefits and costs, more or less constrained by other considerations, have been the predominant ones (Kapp, 1971; Braverman, 1974).

One example should suffice. The spatial concentration of economic activity, and therefore also of population, is a remarkable part of recent history. The *urbanization revolution,* as it may be justly described, is but a century old (Davis, 1966). This concentration process is the result of myriad decisions by entrepreneurs calculating their benefits and costs. Surely there were agglomeration economies which lowered entrepreneurial costs, but there were considerable social costs which remained external and neglected. The labor force for concentrated economic activity must commute to their places of employment, which involves a multiplicity of costs such as traffic control in addition to the opportunity cost of the employees' own time. Ponder the cost of one hour commuting time, five days a week, and fifty weeks a year for millions of laborers at several dollars per hour. Add to this the destruction of amenities and diseconomies of servicing and governing large population concentrations, and the importance of the Goodmans' insights is clear.

> Now, apart from land costs, it is generally assumed that such [physical] concentration [of production] is technically efficient . . . But this universal and obvious assumption is probably false; it fails to consider the chief social expense in all large-scale production, labor time.
>
> It is almost always cheaper to transport material than men. If the plant is concentrated, the bulk of workers must live away and commute . . . The living men must be transported twice daily; the material and mechanical parts at much longer intervals.
>
> Which transport is easier to schedule? The time of life of a piece of steel is not consumed while it waits for a truck . . . Supply trucks move at a convenient hour, but the fleet of trains and buses congest traffic at 8–9 a.m. and at 4–5 p.m. If the men travel by auto, there is mass parking.
>
> To be sure, most of this consumption of time and nervous energy is not paid for, and the roads and franchises that make commutation possible are part of the social inheritance. But from the point of view of social wealth, the expense must be counted in, even though it does not technically appear in the price. The worker's time is bound and useless, even though unpaid. If parts of this expense, of time and effort, were made to appear as an item on the payroll, . . . there would soon be better planning.
> (Goodman and Goodman, 1960, pp. 83–4.)

The Goodmans are, of course, alluding to social costs which are external to the entrepreneurial decision-making matrix.

Their implication that internalization of externalities goes hand in hand with *planning* is equally portentous.

The conception of market capitalist society as one of institutionalized externalities points up the two aspects of institutional change in that society: entrepreneurial dynamism and interventionist drift. Entrepreneurial decisions over the structure and location of output and technology have had extreme external impacts. Decisions such as those which have rendered obsolete fixed capital or labor skills, eradicated product lines or industries, or altered the development path of communities or regions, have been made upon the basis of entrepreneurial calculation. The dynamism of capitalism is not difficult to account for if the distributive impacts of change are assayed. It is an instructive oversimplification to view the entrepreneurs as the principal beneficiaries of their decisions but with society absorbing a substantial portion of the costs.

The conception of institutionalized externalities clearly includes interventionist drift within its realm of explanation. Citizens have organized to protect their lives from the impacts of entrepreneurial decisions. The struggles of labor, environmentalists, historical preservation societies, and business firms themselves show this protective pattern throughout the history of capitalism. Only economists blinded by an ahistorical paradigm could fail to see the myriad examples of progress versus preservation and change versus conservation as profoundly portentous phenomena.

Moreover, as already noted, it is an error to ascribe this interventionist drift in ideological terms (Polanyi, 1957, pp. 145–50). Neither ideology nor social stratification provide a unifying principle. The promulgators of state intervention have often been ideologically opposed to state intervention, but circumstance creates strange political bedding arrangements. The Marxist analysis of class struggle captures an important part of the interventionist drift, capital versus labor, which may yet prove to be most profound. It is nonetheless only a part of the drift here in question which includes labor protection versus labor or capital versus capital. The only universal has been the myth that the market can be safely charged with protecting societal interests. For several centuries the citizenry has been battling with the effects of a myth. There is a poignance to the fact that, not infrequently, those working out the logic of drift have believed fervently in the market myth.

DRIFT VERSUS PLANNING

As alluded to earlier, the interventionist drift comprises a myth of its own: it is sufficient to provide reactive intervention, piecemeal protection against the myth of the autonomous market. This myth of soft intervention blinds one to the plight of drift and prevents the creation of institutions capable of arresting drift and allowing for conscious direction of change. It has left us not only with huge state bureaucracies with overlapping responsibilities and contrary objectives, but also with citizens ideologically unprepared to understand planning. As Gunnar Myrdal wisely notes, we have tons of intervention, but not a pound of planning (Myrdal, 1967, Part I). The interventionist myth has brought Western liberalism to the peril of its current state of institutional and ideological crisis.

Institutionalism is thus ineluctably led to the necessity of planning. It understands the necessity of social control of economic activity – the structure of investment, technology, and work. It sees clearly that the market is an insufficient mechanism for such control, and it comprehends the pain of the interventionist drift which affronts the ideology of the market. A system of institutionalized externalities is a system prone to dysfunction and disintegration. The cost of 'creative destruction,' of incessantly bespoiling and rebuilding the human nest, is now grown prohibitive. The societal manifestations of economic activity, now and always, require that society abandon its belief that it can unconsciously control economic activity and grasp instead the ideology of planning. Execution of this change will then require the construction of the institutions of planning.

The institutionalist paradigm does not yet abandon us. It indicates in general outline the nature of the ideological fray which looms on the agenda. The myths of the autonomous market and interventionist drift must be debunked. The citizenry must be educated about this mythology via elaboration of an ideology of planning. Institutionalism points as clearly to the focus of planning. The institutions of planning most surely focus on decisions over investment, technology, and work. Societal assessment of these decisions is an obvious prelude to societal decision-making.

Involuntarily, the terms democracy, individualism, and free enterprise enter any discussion of planning. They are welcome. Anything so important as individual freedom must be consciously provided for and its protection not left to spontaneous events. Planning is necessary to make democracy consistent with individualism and free enterprise. Democracy requires that individuals have a voice over impacts which affect their lives. Free enterprise requires that individuals be able to apply their intelligence and initiative to the creative use of societal resources. But one person's enterprise generates external impacts on others. The ideology of the autonomous market cannot resolve this contradiction; the ideology of planning can. Indeed, planning is essentially the resolution of the contradiction between freedom to and freedom from. It is only through conscious social action that we can mediate the freedom to act and the freedom not to be acted upon without consent.

Free enterprise requires that the individual have recourse to societal resources. This requires some process through which the individual can petition for the use of such resources. Under the regime of market capitalism, the individual petitions the investment banker and is subject to the criteria of profitability and risk. With the addition of the interventionist drift, not only the investment banker but state agencies for environmental protection, anti-discrimination, land use zoning, construction codes, and so on must be consulted. Under the regime of planning the individual would need to petition well-defined agencies within the planning structure for resources and license. These agencies would represent the citizenry and schedule public hearings according to well-defined criteria of impacts and significance. That is, many projects would start small and, if promising, develop to the point of being included in the planning structure. Perhaps even a basic project funding pool would be established to provide seed money. The implied reference to research project proposals and peer and society review is intended.

A lengthy quote from Harry Magdoff concerning his visit to the People's Republic of China underscores the present point about individual enterprise. Magdoff is discussing the changes in the Chinese economic orientation associated with The Great Leap Forward. In this period, 1958 to 1960, Mao changed the orientation of the Chinese economy away from the Soviet model, with its emphasis on heavy industry, expertise, and centralization, to the now characteristic Chinese model of local and regional initiative, intermediate technology, and small-scale industry.

> The stimulus to local initiative was not confined to rural areas. In the cities a variety of enterprises were begun by housewives, who had never been inside a factory before. One of the highlights of our trip to China was a visit to the Western City District Optical Instrument Factory (Peking), a firm that currently manufactures simple magnifying glasses as well as complicated optical instruments . . . This factory, now employing 520 workers, was started by 30 neighborhood housewives who got together in 1958 . . . After a survey of nearby plants to find out how they could help, they came up with the idea of making lenses (cover glasses) for a watch factory . . . As they learned, they began to make more complicated optical devices and by 1969 their cooperative had reached such maturity that it became a state factory.
> (Magdoff, 1975, p. 38n.)

CONCLUSION

In summary, the concept of institutionalized externalities accounts for the twofold character of change in market capitalist society. The concept allows a corollary demonstration that a comprehensive strategy of planned intervention is needed to replace the current drift and that the development of planning ideology and institutions is just ahead. The scale and complexity of modern economic activity has rendered the myths of the market and drift dangerous as well as stupid. The ideals of liberalism, individualism, and democracy require social control, which requires planning. Institutionalists should applaud the orthodox dictum that externalities be internalized. Of course, there is a fundamental difference. Institutionalists see through the orthodox internalization strategy as a patchwork on the autonomous market and recognize internalization for the subversive strategy that it is. If market capitalism be a system of institutionalized externalities, then the internalization strategy is a call for the end of market capitalism.

It is then appropriate that AFEE accept the charge of its intellectual heritage and openly undertake to guide the development of the ideology of planning. AFEE can proudly use its resources toward the reconstruction of economic philosophy and the refashioning of economic institutions. Its conscience must surely permit no less.

8 Social Reform and Economic Policy[1]

The economic system . . . is . . . a curious stream of tendencies.

W. Hamilton, 1918.

Social and historical inquiry is in fact a part of the social process itself, not something outside of it. The consequences of not perceiving this fact was that the conclusions of the social sciences were not made . . . integral members of a program of social action.

J. Dewey, 1935.

There are not merely analogies to be drawn between democracy and science . . . The instrumentalist aim is . . . a merging of the social reformer with the social scientist.

R. Tilman, 1987.

This chapter examines the principles that radical institutionalists consider to be the foundation for effective thinking on economic policy. Most prominent in this regard is instrumental value theory and the contradictory relation of invidiousness to instrumental effectiveness. Another prominent theme is the generally favorable response of radical institutionalists to the twentieth-century tendency toward increasing collective and state action to control the economic process. An interwoven theme is the necessity of fully understanding the implications of this collective movement so that the control in question can be made more democratic and more instrumentally effective.

THE FOUNDATION OF EFFECTIVE ECONOMIC POLICY

Effective economic policy is inseparable from the fundamental function of the economic process and its place in human society

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– provisioning the human life process. Instrumental value theory commences from the fact that the economy universally is a material, technological, or substantive process of provisioning the social and individual requirements for society to continue to exist and evolve as a going concern. These requirements have a physiological aspect that cannot be ignored, but it is not definitive or even particularly important in comparison to the cultural or meaningful context of human existence. That which is provisioned is the life process of individuals so that there is involved inherently an experiential or meaningful context. 'Goods are produced and consumed as a means to the fuller unfolding of human life; and their utility consists, in the first instance, in their efficiency as means to this end. The end is, in the first instance, the fullness of life of the individual' (Veblen, 1953, p. 11). That Veblen in the very next sentence turns to the secondary, emulative, and invidious function of goods, demonstrates the importance of including invidiousness in any discussion of instrumental valuation.

That individual development necessarily has a subjective aspect – indeed the term embodies the Kantian notion that the individual is functioning as a developing subjectivity rather than as an object of someone else's plans – does not reduce the matter to the given and unassailable tastes and preferences so familiar in the conventional theory of sentient choice. The substance of individual development is instrumental or technological and social or relational. To encourage individual development is to remove institutional hindrances to the individual's following the lead of that which Veblen referred to as the instincts of workmanship and idle curiosity and the parental bent. An existence devoted to creative craft and thought, caring for and valuing relationships with other people, is an instrumentally effective existence.

Veblen's insight concerning the place of the economic process in the scheme of human life was matched by Dewey, who was more insistent about the individual's development and more explicit about the necessary inclusion of the context of meaning or experience. For Dewey, 'progress means increase of present meaning' (Dewey, 1957, p. 261). As Tool notes, 'Dewey's criterion [or principle of social value] may be identified as to act so as to "increase the meaning of present experience" ' (Tool, 1977, p. 830). Tool goes on to quote Dewey on the common good being 'a criterion which demands the full development of individuals in their distinctive individuality' and that the criterion for judging social organization, law, government, and other institutions is the 'release of the potentialities of individuals.' For Dewey, the economic or output effects of this release were secondary and unnecessary to legitimate the individual's development, for that development is the goal. Culture and social relations were to him an essential aspect of development, superior to an expansion of output *per se.* Indeed, a large part of his diagnosis of the 'crisis of liberalism' focused on the historically accidental preoccupation of liberalism with material wealth. He argued that liberalism had so exaggerated 'materialistic economics . . . at the expense of cultural values' that it 'conceives of initiative, vigor, independence exclusively in terms of their least significant manifestation . . . the economic area. The meaning of their exercise and connection with the cultural resources of civilization, in such matters as companionship, science and art, is all but ignored' (Dewey, 1963, pp. 38–9).

Similar sentiments are readily available in the work of Ayres, who attempted to fuse the ideas of Veblen and Dewey. According to Ayres, Veblen 'conceived the economy as the system of related activities by which the people of any community get their living. This system embraces a body of knowledge and of skills and a stock of physical equipment; it also embraces a complex network of personal relations reinforced by custom, ritual, sentiment, and dogma' (Ayres, 1964, p. 61). The economy is the aspect of human life that sustains the 'life process of mankind, in which values have meaning, . . . a process of doing and knowing' (Ayres, 1961, p. 111). Accordingly, for Ayres the criteria of good and bad, right and wrong, is the advancement of the life process. Ayres also relegated mere economic wealth to a subordinate position relative to human development, that is expanding knowing and doing. In one of his last essays he lamented the tendency of the welfare state to overemphasize distribution and consumption and to neglect achievement and creativity (Ayres, 1967).

A contemporary formulation of the Veblen-Dewey-Ayres conception of the economic process and economic valuation has been provided by Tool's development of the ideas of his mentor, J. Fagg Foster, the latter a powerful figure in the Ayresian oral tradition. Tool's social value principle for the making of social and individual decisions focuses on that 'which provides for the *continuity of human life and the noninvidious recreation of community through the instrumental use of knowledge*' (Tool, 1979, p. 293). By continuity and community, Tool refers not only to the physical reproduction of individuals but also to their social reproduction: a regeneration of their creative faculties and continuity of their life meanings, experiences, and interpersonal relations. The reference to non-invidious indicates the antagonism between invidious distinctions and instrumental effectiveness. Distinguishing between people or comparing them in order to rank them according to merit or worth introduces an element of competitive emulation or gamesmanship into the economic process. The production and consumption of real output then ceases to be governed by the requirements of expanding the human capacity for knowing and doing. This perversion of the economic process induces wastefulness, creates unnecessary inequality and repression, and distorts individual personalities.

A very similar theory of valuation is found in the work of Polanyi, whose work was centrally concerned with Marx's problem of *lives and livelihood*: the relation of the economy (livelihood) to the human community (lives) it serves to provision. Marx powerfully demonstrated that the instability, insecurity, class inequality, alienated labor, and fetishistic attachment to the growth of commodity production and capital accumulation inherent in market capitalism destructively distorted the individual's personality and social relationships. Polanyi picked up where Marx left off in the analysis of market capitalism as a socioeconomic system in which one produces use-values for others primarily as commodities, that is only as the use-values are convertible to exchange values. Pecuniary self-gain is the operative motive in this process, rather than caring, obligation, cooperation, belonging to a human community, or other ego needs of the human individual.

Polanyi's basis for criticizing this institutional complex was his definition of the economy as 'an instituted process of interaction between man and his environment which results in a continuous supply of want-satisfying material means' (Polanyi, 1968, p. 145). The key term in this conception is *instituted process*. By process Polanyi referred to the act of production as a 'sequence of functional movements' of want-satisfying material means, locationally – place to place – or socially – hand to hand (Polanyi, 1968, pp. 306–7). Instituted refers to the 'societal conditions from which the motives of individuals spring' (Polanyi, 1968, p. 147). This institutedness vests the economic process with unity and stability, that is makes it an integrated system, capable of providing the sustained flow of material means requisite for the continuation of social and individual life.

Clearly Polanyi's substantive conception of the economy emphasizes the technological and social process of sustaining the continuity of culture much as have the writers already reviewed. No less clearly did Polanyi, following Marx, emphasize the necessary subordination of economy to the development of the human individual. The proper function and place of the economy in human society is to support the individual and to enable him to develop his potential to contribute to the rich fabric of human achievement. This emphasis on the individual in no way contradicts the 'reality of society' by taking the individual out of the social context of his or her formation, or by lining up all on the side of freedom to the neglect of order. Veblen and the other writers already reviewed frequently insisted upon the life process taken impersonally or as a whole, the collective character of the technological process, and the importance of moral communities in prescribing and proscribing the individual's character and behavior. Polanyi emphasized the reality of society and the necessary existence of sufficient power and compulsion to secure that minimal conformity necessary for the survival of the group (Polanyi, 1968, p. 74). However, he, Marx, and the scholars discussed above would object to *surplus repression*: power and compulsion beyond this minimal level. Such surplus repression typically exists to maintain invidious social or class distinctions, and the writers in question strongly object to the unnecessary deprivation, inequality, and impeding of human freedom and development associated therewith.

A few implications of the substantive or instrumental definition of economy are important enough to make explicit at this point. By this standard of evaluation, the economy must clearly be ecologically sustainable. Economic institutions that lead to environmental disruption or rapid depletion of resources are eventually destabilizing and therefore fail the test of continuity. Economic stabilization becomes a matter of sustaining the flow of income so that households, businesses, and government agencies are reproduced as going concerns. This emphasis on the instrumental function of income flow also means that income distribution is not, as it is in the conventional economic view, a matter merely of subjective attitudes as to what is fair, but is instead part and parcel of economic effectiveness. From the instrumental view, an effective income distribution is one that sustains continuity and restrains invidiousness. The famous Marxian slogan 'From each according to ability and to each according to need' is a very precise statement of the instrumental principle of income distribution. Distribution on the basis of need not only sustains continuity of life, it also removes distribution from any notion of merit or worth, thereby arresting invidiousness. For this reason I object to Tool's cavalier rejection of Marx's distributive principle (Tool, 1979, p. 319). Marx's statement, based on the work of the anthropologist L.H. Morgan on primitive societies in which the economy was subordinate to continuity and non-invidious community, should be hailed as the institutionalist distributive principle.

In summary, the substantive or instrumental definition of the economy emphasizes lives and livelihood. The economy is evaluated on its ability to reproduce lives without disrupting them. The economy is not instrumentally valid if it destroys community or family life, distorts personalities, or unnecessarily represses individual freedom and development.

Another important base of effective thinking on economic policy is the principle of *household sovereignty*. The unfolding life process is shaped, defined, and interpreted by a context of patterned meanings, that is culture. The purpose of the economy as instrumentally conceived is to provision and encourage, or at least not discourage, the development of individual personalities. It is instrumentally effective that these personalities be formed within the confines of a love relationship that only the family can effectively provide. The reference is not necessarily to the nuclear family. Ample social space should be left for people to evolve family units that preserve the love relationship and function effectively in the wider milieu. Moreover, the most effective family operates in a milieu of close-knit community relations beyond the immediate family. An effective family policy and community policy is therefore a requisite part of the policy of economic control. This does not preclude the educational function of the state but it does invalidate its propagandistic tendency and tightly constrains it in the area of legislating and administrating morality. It also provides the state a mandate to ensure that household sovereignty is not compromised by the power of the modern corporation.

Household sovereignty is not consumer sovereignty, narrowly conceived. Indeed, I would stress producer sovereignty given the activist (self-creative through craft and thought) concept of human nature common to Marxian and institutionalist doctrine. The values and needs of workers as developing personalities should be the first desideratum in structuring the work process. Household sovereignty and effective democracy are impossible without an effective system of economic democracy at the work place. Consumer sovereignty is also important – indeed in consumption as in production human beings are ultimately producing what really counts: themselves and others as human organisms participating in an ongoing cultural process. Subject to the constraints of producer sovereignty and carefully validated collective considerations, the consumer's preferences should rule the assortment of output.

The main point at hand is that the instrumental conception of the economy necessarily implies that the exchange economy should be subordinate to society. It is nonsense, according to this value standard, to subordinate the needs of people as developing personalities to the goal of expanding commodity production. This is the thrust of Polanyi's conception of the market capitalist economy as a disembedded economy, that is an economy with its own logic (calculated self-gain), process of control (bargaining and competition), and teleological momentum (economic progress conceived solely as expanding commodity production) considered to be largely self-regulating (Polanyi, 1957, Chs. 3–6). Such an economy is necessarily superordinate to society. Family life must be geared to socializing effective market competitors and culture must legitimate, even celebrate, the calculated selfishness that can alone drive the competitive process and lend any meaning to the relative prices it establishes. Culture must define success as pecuniary achievement and promote an ideology of scarcity that creates the moral imperative of calculated maximization. The family unit and social relationships must be restricted so as not to interfere with the mobility necessary for effective market participation.

Market capitalism conceived as a self-regulating process clearly fails the instrumental test. As discussed in Chapter 12 below, Schumpeter's important concept of *creative destruction* well illustrates the disruptive social effects of collectively unregulated entrepreneurial freedom, that is unrestrained investment for profit. Creative destruction implies too much in the way of social and cultural disruption to pass the instrumental test of continuity. Economic policy must be such as to subordinate the exchange economy to the necessity of reproducing society as an ongoing cultural process.

Institutionalists also insist that an evolutionary and holistic focus is necessary to think effectively about economic policy. Given the interaction of social spheres, economic policy cannot be viewed in isolation. The tendency of the mainstream to do so means simply that it is the expression of the disembedded economy. The belief in scarcity and more-is-better is so strong that the social and cultural disruptions that are the byproducts of creative destruction and an efficient exchange economy are considered secondary and unimportant compared to the expansion of commodity production.

Even so conceived, however, the goals of economic policy are often frustrated by policy-makers' refusal to recognize the social and cultural effects on economic activity. People do not necessarily respond as calculative, utilitarian machines precisely because they are people – that is, developing personalities engaged in the flow of a total life process that has a continuity of traditions, feelings, and interpersonal relations that they often place ahead of pecuniary achievement. From the instrumental standard, one can easily understand this frustration of conventional economic thinking on economic policy. People attempt to protect the continuity of their lives against the disruptive strains of the unregulated exchange economy (see Polanyi, 1957, chs 6, 11–18).

When the explicit economic policy standard becomes the provisioning of this continuity economists and policy-makers will have learned a bit from folk wisdom. At the same time, the holistic focus will also become explicit in policy discussion because the subordination of the exchange economy to social and cultural continuity will require the explicit examination of the social and cultural implications of this or that economic institution or policy initiative. More is better, *ceteris paribus*, will no doubt remain a valid principle but economic thinking will have matured to the point of asking: given the way a certain more is to be obtained, are other things, socially and culturally, the same? More is better, *ceteris paribus*, is but so much logical tautology without a paradigm capable of asking this question (Diedrich, 1983).

Since the life process is ever changing, the perspective for studying economic policy must also be evolutionary: that is, the conception of the economic problem must be such as to allow the substantive particulars of enquiry to change as the character of the life process that supplies them changes. As social institutions and organizations evolve, the structure and function of the interactive complex evolve. 'The crucial ingredient in instrumental value theory is the ongoing nature of the process' (W. Gordon, 1980, p. 45). For the institutionalist, *the* economic problem is the continuous adjustment or reconstruction of economic institutions, in light of social change, to more perfectly serve human needs and development. The economic problem thus conceived is an adaptive process to secure continuity of existence as the basis for individual development. Economic decisions of one kind or another, large or small, must then be taken in the context of their 'compatibility or incompatibility with the effective evolutionary process' (Veblen, 1953, p. 142). Economic policy is part of the economic problem of socially controlling economic behavior to sustain a functioning economic order. As Walton Hamilton (1974, n.p.) observed: 'control sets the problem, welfare fixes the end, institutions are the changeable factors through which control must be exercised.' Foster has perhaps most lucidly developed this central focus of institutional economics (Foster, 1981).

The economic problem conceived in this way does not so neatly break down into a compact subset of questions in the manner of conventional economics: what? how? and for whom? The subsidiary questions of institutional economics are legion and historically specific. Technology changes concretely and institutional adjustment and preservation of cultural continuity must be similarly concrete. Given social change, the subsidiary questions of the economic problem for institutionalists present themselves as matters of adaptation in specific 'instances of breakdown, termination, impairment, disorder, discrimination, or obsolescence in the performance of economic functions by economic institutions' (Tool, 1977, p. 837). Instrumental effectiveness lies in institutional adaptations to overcome the discontinuities and remove the 'incidences of the breakdowns or disruptions in the production and distribution of real income' (Tool, 1977, p. 838).

Clearly then, institutionalism differs from the mainstream in its definition of *economic,* and this difference is part of its dissenting conception of the character of the economic process and problem. No less clearly institutionalism dissents from the mainstream as to the place of economy in society and as to the standard of evaluation of economic performance. These differences constitute an emphatic denial by institutionalism that instrumental effectiveness is equal to market efficiency. *Sufficiency* of the production of material means to provision society as an ongoing concern is the instrumental standard. It is related to technological efficiency of specific industrial processes but it is distinct from the mainstream conception of *efficiency* of an exchange economy. As Tool (1979, pp. 305–6) has pointed out, there are several grounds for suspicion of the instrumental effectiveness of the competitive market. There is no basis in the ideology or function of such an economy to critically evaluate the character of wants or preferences in light of the unfolding life process. Consumer and factor-owner preferences are hailed as sovereign without any investigation of their worth or the power process by which they are formed (see Chapters 1 and 6). Income distribution is similarly a moot point within the ideology of competitive market capitalism and certainly a socially disruptive problem in the actual functioning of such economies. Competitive market economies *per se* provide no means for introducing non-invidious, non-pecuniary criteria into the process of economic decision-making and control. That which does not enter into the calculation of commodity production – that is, that which does not augment the production of use values that are convertible into exchange values – no matter how important to the quality of human life, is neglected in the functioning of such economies. That which contradicts the expansion of commodity production, such as traditional human values or relationships or environmental preservation, is destroyed.

In short, the market value standard is inferior *normatively,* quite apart from its positive relevance. It is the logical expression of the disembedded economy, which is contrary to the instrumental effectiveness standard, with its criterion of enhanced quality of life through cultural continuity and individual development.

The market model is also positively suspect to the institutionalist, increasingly so in the twentieth century, in view of the increasing evidence of the existence of an *administered economy.* In its nineteenth-century setting with the focus on long-run equilibrium and its more contemporary general equilibrium setting, the market model subsumes a vast and diverse array of complicated and disparate decisions under the banner of automatic market adjustment. The market view insists that the invisible hand of competitively guided self-interest operates to establish relative price and income relations that bring the myriad historical events affecting the economic process into a meaningful relationship to one another. This view is based on the notion of a functioning, long-run general equilibrating process and therefore observations of tendencies to equilibrium or decision-makers reacting to relative price changes in particular markets are not sufficient to support it. The required evidence would have to be much broader and more general, and is virtually unimaginable in light of the shifting sands of technology, taste, power relationships, demography, et cetera, that comprise the fabric of the actual historical process. Hence, the institutionalist tendency is to view this procedure as absurdly mythic in character. European, notably English, minds contrived the market myth and built a culture upon it in the wake of the cultural crisis they faced with the collapse of medieval society and its cultural myth of a divinely guided clergy and aristocracy. The market model was a response born of humanity's inveterate quest to realistically or mythically comprehend and meaningfully order its world, coupled with its inability to realistically comprehend the changing structure of technology and power relations that destroyed the medieval world (Appleby, 1978).

In the institutionalist view, the growth of the administered economy is part and parcel of the inherent logic of the combustible admixture of industrial technology and market capitalist institutions. All the while the market view insisted upon that institutional configuration's ability to automatically preserve reasonable economic stability, efficiency, and equity sufficient to ensure continuity and, indeed, progressive improvement of the social process, industrialism strained under so loose a yoke and threatened here, there, and everywhere to break away and destroy the fabric of social process. That continuity of existence has been maintained at all owes less to the automatic magic of the market than to a strong, contrary, and largely neglected undercurrent of reform. This reform current has substituted collective action, private or nominally governmental, for the workings of the competitive market.

The thesis that the industrial social economy contains a logic of reform toward increasing collective and state action has always been a strong theme in institutional economics. In his survey of the founders of the school, Gruchy found a common theme:

> The logic of economic development shows that modern industrial technology is throwing economic activity into a mold which is becoming increasingly collective in nature. This technology, if not interrupted in its development, will continue its work of transforming the competitive economy into a system in which collective economic action is of major importance. The logic of this economic development necessarily leads to some form of intervention by forces which operate outside private markets, since the modern economy cannot function smoothly and efficiently under the direction of private enterprise.
>
> (1967, pp. 620–1.)

Walton Hamilton, a somewhat neglected but important founding member of the school, also emphasized the collective tendency in the face of the dangerous force of unregulated market competition.

> The thesis here is that the market which of old was sovereign to the whole economy has been deposed, and that the

> mandate of supply and demand which rigidly it enforced has ceased to be an 'iron law'. It is not true that the market is no longer of importance ... it is rather that the throne has had to be shared ... ; and that the stream of judgments by which the vast network of productive activities is kept going no longer emerges from the automatic play of economic forces. A host of procedures and arrangements – political in character – have invaded the domain of business. As a result there has arisen, quite apart from the ordinary operations of state, a government of industry which in its own distinctive way has its constitution and its statutes, its administrative and judicial processes, and its own manner of dealing with those who do not abide by the law of industry.
>
> (1957, pp. 6–7.)

Hamilton defines politics broadly to include private collective arrangements as well as the sphere of the state. The nominally private modern corporation was indeed a major focus of Hamilton's. He argued that since corporate managers have discretion, they make policy, and that policy involves politics.

Similar reasoning is found in Galbraith's (1967) work on the supercession of the market by vertical integration, forward contracting, or market power because of the imperatives of modern industrial technology. The key ingredient in Galbraith's explanation is again that the inherent instability and insecurity of the market mechanism is inconsistent with the scale and interdependence of the industrial technology employed.

Polanyi's (1957, ch. 6) analysis of the 'double movement of the nineteenth century' is strikingly similar. On the one hand, the reach of the putatively self-regulating market mechanism was extended in that century; its pecuniary calculus, motive of self-gain, and competitive process was applied to more and more of the social relations of production and distribution. An ever-greater proportion of the production of use-values was brought into the orbit of commodity production, culminating in the treatment of land, labor, and capital as commodities. On the other hand, Polanyi reveals a contrary movement, a protective response that arose spontaneously to check and counter the operation of the market. This counter-move, carried out largely by political or collective means, had no common motivation other than the protection of the fabric of social existence against the disruptive peril of the insecurity and instability of the market mechanism. Its spontaneity accounts for its piecemeal, almost unconscious character. There was no underlying set of principles or ideologies that guided the people who carried it out; they acted less out of belief in what they were about than out of necessity. Indeed, then and now they very well may have fervently believed in the market ideology, for the falsity of which their actions give the strongest evidence.

Radical institutionalists argue that a cultural crisis exists in the latter half of the twentieth century similar to the one that existed in the seventeenth century (Benton, 1983). The growth of the administered economy reveals more and more clearly the positive and normative shortcomings of the market model. Positively, the growth of administered economy means that expectations derived from market culture are persistently violated. The expectations of that culture that the market mechanism will establish reasonably effective, equitable, and stable relations conflicts with the reality of power and distorted relative incomes and prices. Normatively, the logic of reform that generated the administered economy resulted from the incompatibility of instituting industrial technology within market capitalism with the essential provisioning function of the economic process. The values of a pecuniary culture become more and more antagonistic to quality of life in a world in which technological change brings people into ever closer interdependency and raises the scale of social and ecological disruption. That which Carlyle referred to as a philosophy for pigs, that is the market model of classical economics, is even less suitable for the human life process in the twentieth century than it was in the nineteenth. As Daniel Fusfeld has noted, 'The ultimate contradiction within the market economy is that its social relations of production do not conform to the ethical norms of a humane society' (Fusfeld, 1982, p. 59).

Clearly, the institutionalist case does not rest on the market model's dubious positive relevance alone, but also on its normative inferiority. Hence, no policy of trust-busting to restore competitive markets is a suitable policy frame of reference for institutionalists whose different conception of the economic process leads them to a very different political economy and frame of reference for economic policy.

POLITICAL ECONOMY IN A DIFFERENT LIGHT

The institutionalist conception of the economy, with its logic of reform or collective, protective response, throws a different light on the role of the political process and economic organization and, indeed, on the whole question of public versus private. The instrumental purpose of the economy is inherently social, owing to its emphasis on the reproduction of society as a going concern, and to its emphasis on the technological nature of the economic process, since technology is the collective historical product of human society. The increasing collective action via the political process, in its public or private dimensions, is a spontaneous reform movement to restore the social governance of the sensitive provisioning process, a governance taken for granted for most of human history but eclipsed and discarded in the wake of the artificial separation of polity and economy in the market society and culture of the nineteenth century.

This distinctive focus of institutionalism on the economic process leads to a distinctive political economy. I elaborate that difference by considering first the institutionalist view of the purpose and promise of the corporate-welfare state, and socioeconomic regulation. Second, I consider the special attention and interpretation that institutionalists give to the modern corporation and its place in the structure and function of modern society. Finally, I close with some comments on the policies of the Reagan administration and the ideas behind them.

The corporate-welfare state is the outcome of the spontaneous reform process already discussed. I use the rather clumsy term *corporate-welfare state* for lack of a better one that emphasizes that this reform movement utilizes private as well as public political means. Corporations and unions, environmental action groups and historical preservation societies, women and minority rights groups, and so on, are as much a part of the spontaneous movement as the policies and politics of government. The underlying purpose of the movement, and therefore of the corporate-welfare state with which it culminates, is to politically and collectively *administer* the economy so as to remove from the orbit of the automatic market decisions concerning land, labor, and capital. The lesson of the spontaneous movement is that these decisions are too sensitive, their accuracy too vital, their relation to the social fabric too fragile for them to be left to the erratic lurchings of the automatic market.

This includes the wages and training of labor, the aggregate and structural matching of labor to jobs, and the conditions and character of work itself. It includes the rate of resource utilization and the (ab)use of environmental waste sinks. The conscious management of land and labor requires a 'somewhat comprehensive socialization of investment.' The location and structure of capital installations is intricately related to labor and environmental management. The level and structure of capital formation cannot be left to the socially disruptive and unreliable process of private saving and investment planning. There is included as well a cultural component, since continuity of meaningful existence is inseparable from the reproduction of society as a going concern. A part of the reform movement, and therefore of the institutionalist policy focus, is to preserve meanings by protecting culturally significant symbols, buildings, and places from destruction at the hands of the pecuniary drive.

It is important to stress that the purpose in question is not to approximate market efficiency or the results of competitive markets, but rather to overrule the market and subordinate it to conscious social value and purpose. For the institutionalist, the increasing collective action and the political administration of the economy is a positive fact that is potentially superior normatively. The movement has not yet fully matured, however, and its full fruition is blocked by a failure to recognize it for what it is and what it ought to become. The failure to throw off the market mentality means that too often the anti-market movement is turned to the very short-sighted, private ends that the market culture promotes rather than to the instrumental purpose of a fuller unfolding of the life process of human beings.

An important part of this reform movement is economic stabilization policy. From the instrumental perspective the function of the flow of pecuniary income is to channel the flow of real output to reproduce household, business, and government organizations as going concerns. Aggregate and structural balance and stability in these flows is essential to the social and cultural continuity of the context for human development.

Imbalances and shortfalls in some places or sectors in the economy will reverberate throughout the economy, destabilizing other places or sectors. Aggregate demand (Keynesian) policy is an important part of this stabilization policy, but not sufficient *per se.* A structural policy or *direct adjustment mechanism,* indeed a longer run supply-side intervention, is also required. Of particular importance in this direct adjustment mechanism is the anticipation of structural and technological changes and the adjustment for the effects they will have on the economic process. Currently the effects of structural change in shifting production to the less developed countries is causing structural unemployment in US industries but no response is being made. A new wave of computer technology is allowing faster counting and this has important structural effects, notably in banking and the velocity of money circulation, but no response is forthcoming. Industrial robotics appear to be ready for widespread diffusion, yet no political response is contemplated.

Such direct intervention in relative price and income flows has always been viewed askance, even by liberal Keynesians of the neoclassical synthesis, because it is seen as distorting the relative prices and income relations essential to the effective working of the automatic market. The institutionalists insist that such homage to the market model must be transcended. The positive irrelevance of the market model means that relative prices and incomes are already largely administered. The normative superiority of a democratically administered economy in light of the instrumental value standard means that the job already begun by the spontaneous reform movement should be completed via explicit democratization of the administrative process.

The institutionalist concern for social justice is also distinctive. The distribution of income should be governed less by market (and inherently invidious) concoctions of equity and merit than by simple human need, since instrumentally, as already noted, the flow of pecuniary income is merely a useful way of managing the flow of real output to the places it is needed for social reproduction. The amount of real income depends upon the effectiveness of the technological process which is the collective historical product of human society. For the institutionalist there is no natural law or natural rights principle that establishes just deserts in the products of this technological heritage other than that of simple human need.

There is the separate question of incentives, which is not based on natural law or human nature, but on the social contract and acculturation process of a given society. Given a particular social contract, such as an attempt to apportion real wages to the marginal productivity of labor, questions must be asked about its relation to the social fabric and its consistency with the effective instrumental process. Institutionalists tend to believe that the market social contract, with its emphasis on distribution on the basis of private earnings, is needlessly invidious, socially disruptive, and destructive of community process. They therefore tend to favor increasing equality and the political means of redistribution and institutional adjustment to achieve it.

Those who lament the disincentive effects of diminishing inequality must consider, first, the disincentive of poverty, the waste of effort that finds no economic opportunity, and the frustration of economic insecurity. They must also consider the social cost of inequality and competitive invidiousness. They must take note of the diminishing opportunity costs of foregone output and efficiency in an affluent society. No amount of formalistic logic about scarcity being relative can overcome the commonsense historical conclusion that the scarcity of commodities as a social problem has diminished with affluence. If one wishes to seriously apply the logic of relative scarcity, one should widen the angle of vision from commodities alone to include time and effort devoted to creative leisure, consuming well, developing community and family relations, and other non-market, often collective aspects to which the incentives of competitive invidiousness are directly contrary.

Increasing social and economic regulation is highly consistent with the institutionalist interpretation of the spontaneous reform movement. Regulation by government agencies sets rules and limits to constrain the operation of the market mechanism in particularly sensitive areas such as working conditions, environmental protection, product safety, and the infrastructure of financial intermediation, transportation, and communications. The aim of regulation is to control the force of competition and thereby shape the economic process toward social value and purpose. As already noted, the spontaneous movement seems inherently uncoordinated and may require substantial redirection and rationalization. However, reform or re-regulation is a thing apart from deregulation, the wholesale dismantling of the regulatory mechanism.

The recent wave of deregulation is particularly galling to institutionalists. It has been carried out in the name of the productivity crisis – that is, it is based on the notion that increasing regulation is a major cause of the declining rate of growth of output per worker because of the private cost of complying with the regulations. There is surely something to this notion, but it should have come as no surprise that the collective decisions made to pursue collective goals in affirmative action, environment, occupational health and safety, and infrastructural stability would involve some opportunity costs. In the current frenzy of deregulation and government budget-cutting, the forgotten consideration has been the *benefits* of securing the collective goals adopted. A benefit-cost calculus without an attempt to account for the benefits is a ludicrous exercise. The institutionalists are convinced that these benefits will be remembered as the public infrastructure crumbles, unregulated truckers and airlines cut corners to be competitive and increase accidents and mayhem, toxic chemicals poison school children, and banks fail.

An increasingly activist stabilization policy, a program for social justice, and socioeconomic regulation are highly consistent with the institutionalist interpretation of the spontaneous reform movement. Reform and adaptation of such policies is an incessant responsibility of social governance, and the particulars of such programs can fail, but generally the institutionalist regards them favorably as effective instrumental responses. The secular growth of the public sector is the fundamental component of the gradual collectivization of economic life by which society may yet make humane use of the tools and knowledge of industrialism.

I have been using the term corporate-welfare state, but my focus has been mainly on the public sector. I now turn to the special consideration that institutionalists give to the corporation as a productive organization. The refusal to treat the corporation as merely a big firm and the insistence that its structure and function and place in society are entirely different from its nineteenth-century predecessor is a hallmark of institutionalism. As already explained, the corporation and the labor movement from which it is inseparable are as much a part of the spontaneous reform movement as the growth of the public sector. Institutionalists therefore reject the comprehensive trust-busting program of populist rhetoric as unrealistic and undesirable. It is unrealistic because it neglects the technological change that has created increasing scale and interdependence as well as the corporation's role in the movement to protect society from the market mechanism. It is undesirable because these actions, whatever their particular motivations and means, generally tend to be instrumentally valid in their protection of social and cultural continuity. Again, in some particulars, reform is no doubt needed but this is a thing apart from a wholesale program of trust-busting in a vain and dangerous effort to roll the clock back to 1850. In short, the institutionalist tends to accept the corporation as a means of productive organization, in contrast to the conservative trust-buster who compares market power to the competitive ideal or the radical nationalizer who compares private ownership with the communist ideal.

The institutionalist's acceptance of the big corporation, however, is in no way apologistic. It is coupled with the demand for regulation and democratic control of corporate power. The institutionalist predilection is summarized by the phrase 'concentration and control,' by which the institutionalist means recognition that concentration of industrial organization is an inevitable tendency and one that is salutary if controlled in the public interest. Institutionalists, notably Tugwell and Galbraith, have been very insistent on this point.

> The phrase 'concentration and control' . . . summarized Tugwell's ideas on society's accommodation of technology. 'Concentration' denoted unhampered development of huge productive units for technological efficiency. 'Control' meant guarantees that the new industrial structure would benefit society as a whole. The two had to go together. In a modern industrial system there would always be coordinators, and they would hold the keys to power. The choice, Tugwell declared, was between a 'supertrust outside our political forms (which may swamp the state in the backwash of its progress) and an assimilation to the state of the going system.'

> Either the government would supervise the planners or the planners would supervise the government.
>
> (Sternsher, 1964, p. 95.)

Galbraith was later to echo this theme and provide eloquent testimony to the unapologetic nature of institutionalism's defense of the modern corporation. The point has always been similar to the one already made about the unconscious character of the spontaneous reform movement. Those in that movement, as those who command the heights of corporate power, do not fully recognize the social movement to which they contribute nor its implications. This is perhaps especially true of the corporate elite, who tend to be trained in the more reactionary enclaves of higher learning.

At any rate, institutionalists are very aware of the need to restrain and channel corporate power. The growth of the administered economy necessarily locates much power in the corporation and its socially responsible and accountable exercise is a major concern of economic policy. As part of the concentration and control strategy, institutionalists have long advocated a direct adjustment mechanism somewhat similar to what is now being called industrial policy. The institutionalist program would include, but be broader than, public subsidy of investment in targeted industrial sectors, trade assistance, manpower retraining and relocation, and so on. It would include explicit efforts to establish cooperation and concerted interests in place of competition and conflict in the economic process. The institutionalist industrial policy would be based on the conviction that there is no place in the new industrial order for market society and culture's antagonism between business and government or business and labor. The policy would seek cooperative solutions to particular problems in the context of the cooperative direction of the productive apparatus.

Here again, the holdover market mentality exercises a paralytic grip. By this cultural logic, one who favors economic planning or is pro-labor is automatically taken to be anti-business. One who is not anti-business cannot be accepted as pro-labor or as favoring democratic collective guidance of the economy. At the same time, so long as the market remains the ideal, antitrust strategy is the logical policy conclusion, yet it is contrary to historical movement and largely impossible. Hence, very little is done to control corporate power. In effect, the market model continues to apologize for or hide that power.

Consider the crowding-out argument about which we have heard so much of late. The story told in this argument is that the government's excessive credit needs are crowding out corporate and household deficit expenditures that are somehow more important than anything the government might be doing. The basis of this bias is the principle of necessary supply price. Corporate expenditures are said to be held to what is necessary by market forces, government expenditures are not. Hence, as corporate executives devote funds to financial acquisitions and mergers, ostentatious office suites, private jets, and other executive prerequisites, they are merely meeting the necessary supply prices of executive talent, a matter that is somehow much more in keeping with a high quality of life than public parks, roads, and buildings. As corporations expend vast sums on advertising and as consumers expend their incomes accordingly in the rat race of invidious distinction, these expenditures are held to be more worthy than public support of the arts, school lunches, income maintenance, or teachers' salaries. Currently, in order to avoid crowding out such expenditures, the government sits idly by as ten million unemployed workers look at the crumbling public infrastructure that is so much in need of labor-intensive maintenance and reconstruction.

This points out a fact that is often neglected: the corporation is not merely an economic organization but a comprehensive social organization that has important political and cultural functions and influences. A part of the administrative economic power of the corporation is the power to administer, in part anyway, consciousness. This directly conflicts with the household sovereignty principle discussed above. Moreover, since the corporate interest is served by invidiously competitive income-earning, income-spending automatons, this influence is used to inflame an already invidious culture. Corporate administered consciousness is therefore contradictory to an instrumentally effective economy because invidiousness is the great enemy of instrumental effectiveness. Institutionalists would therefore emphasize the cultural hegemony of the corporation and the need to counteract it with some form of cultural policy. This cultural policy would include a defense of the public sector against such bias as the crowding-out notion and indeed would counter the holdover market mentality by asking people to think critically on the purpose of the economic process and its proper place in their lives. At the very least, collective measures need to be instituted to finance popular and high culture without reliance upon advertising revenue and to regulate the cultural influence of advertising.

I close with a matter that is currently of utmost importance: the different light that institutionalism sheds on political economy and economic policy provides the basis for a *repudiation* of the policies of the Reagan administration. From the institutionalist perspective, nothing will do that falls short of a total renunciation of those policies and the ideas that underlie them. From a cultural perspective, Reaganism is easily understood as a nativistic reaction to the cultural crisis of market capitalism. The growth of the administered economy and the protective movement that impels it increasingly frustrate expectations based on the market ideology. Concomitant changes have occurred in social and cultural life as the fabric of relations and pattern of meanings surrounding the economic process have evolved. One reaction to cultural crisis is nativistic, detectable in the ethnographic record by demands for a return to a golden age, a simpler or purer past, or fundamental cultural values. Reaganism, that old-time Republican religion, is precisely such a nativistic reaction. For institutionalism, this nativism must be repudiated, for beyond it lies progress: getting on with the institutional and ideological reconstruction necessary to carry on the 'effective evolutionary process.'

Reagan's nativism is seen in the way in which his economic policy at every turn is designed to undercut the labor movement and improve the profit prospects of capital. In the PATCO strike and in his Department of Labor appointments, he set a hardline example for management to follow. In expanding the deregulatory impetus of his predecessor, he has lowered the private cost of production, with little concern for the effects on social costs or quality of life. His infamous tax cut so favors the wealthy that it was initially promoted on the familiar nineteenth-century principle of justifying inequality as the only way to provide saving and capital formation. He has reduced inflation by disregarding the resultant unemployment. He has cut back domestic government spending, which directly undercuts the less fortunate members of the working class and indirectly uses them as an example for the better off: There but for fortune . . . One could add the actions of the Secretary of the Interior in promoting low private cost development opportunities and the hardline diplomatic stance coupled with a defense buildup that protects US business interests abroad.

This analysis sounds rather Marxist and well it should. Like other institutionalists I have always considered the Marxist class theory, at least in its crude versions, to be overly simple, especially given its neglect of the growth of the welfare state and labor's use of its electoral franchise. However, a very crude Marxist class theory seems very applicable to Reagan's policies. The inconsistency is more apparent than real. No one of comparable influence in the twentieth century has done more than Reagan to prove Marx's theory right precisely where institutionalists considered it to fail, and this is not really surprising. Reagan's policies are steeped in the simplistic nostrums of nineteenth-century political economy, as he wages his counterrevolution against the twentieth century. In other words, one nineteenth-century mind is going all out to prove another nineteenth-century mind correct.

Not that Reagan is alone in his crusade to reverse time. He has had considerable assistance within the economics profession. The Keynesian failure of courage to couple short-run aggregate demand policy with a direct adjustment mechanism has left the door open to a variety of nineteenth-century thinkers in modern garb. The thrust of using expectations theory to formulate hypotheses about a natural rate of unemployment is to return to the classical economic world of long-run normals given naturally that government intervention cannot modify. Such thinking implicitly or explicitly stems from the very classical notion that unemployment is voluntary. Hence, the Reagan administration cuts taxes and government income maintenance programs in order to increase the opportunity cost of leisure and the private cost of unemployment.

The hypothesis that an increasing amount of unemployment is in a sense voluntary is probably accurate – but it must be remembered that this is precisely the purpose of much of the collective action now under attack. The purpose of aggregate income stabilization and income maintenance programs can only be to protect labor from the personal, social, and cultural disaster of having to be *mobile* to secure employment. At issue is the fundamental question of how one conceives the place of the economy in society. Nineteenth-century political economy, as practised then *and now,* sees society as an adjunct to efficiently operating markets. For a labor market to work with maximum efficiency, maximum mobility is required. Hence, Ludwig von Mises insisted that unemployment is voluntary in the sense that it results from workers who are 'not willing to work at the wages they could get in the labor market for the particular work they [are] able and willing to perform.' Workers are, in effect, allowing such things as geographical preferences, community roots and relations, accustomed work experiences and remuneration, and other merely social or cultural factors to interfere with mobility. Von Mises (quoted in Polanyi, 1957, pp. 176–7) also said that if workers 'did not act as trade unionists, but reduced their demands and changed their locations and occupations according to the requirements of the labor market, they could eventually find work.'

The notion of the natural rate of unemployment now finding some currency in the economics profession is remarkably similar. It occurs when the number of job openings equals the number of unemployed. Whether the unemployed fit the job descriptions of the openings, want to fit these descriptions, or live anywhere near the location of these openings are secondary matters. The government can do no more than observe the natural rate; doing anything more with aggregate demand policies leads to long-run inflation at the natural rate of unemployment; doing anything more with a direct adjustment mechanism reduces economic efficiency and freedom of all kinds. All of this must make great sense to a president who once declared that unemployment insurance is a 'prepaid vacation plan for beggars' (Ronald Reagan, quoted by Von Borch, 1983, p. 40).

The thrust of the twentieth century and the spontaneous movement discussed above has been in the opposite direction: to put the economy in its (subordinate) place in society and keep it there. In labor markets, the tendency has been *not* to require a worker to uproot his family and the social lives of its members in order to make a living, nor to require a worker to take a job below the level of skills and remuneration to which he has become accustomed. In other words, unemployment insurance and other collective programs for income maintenance seek to maintain social and cultural continuity in the face of labor market instability.

Obviously, at least to institutionalists, this tendency impedes the workings of labor markets and necessitates that the state substitute direct intervention to secure necessary adjustments, such as retraining and relocation programs or investment subsidies to target the creation of new employment opportunities sectorally and geographically. In this view the increasing voluntary component of unemployment may have implications for the reform and redirection of economic policy, particularly with relation to the efficacy of aggregate demand policy taken alone, but it does not mean that we should abandon this policy and return to incantations about the magic of the market. Instead, it points in the direction of increasing direct intervention that can detect involuntary and voluntary unemployment and discriminate between them in appropriate ways in the context of matching available labor to vacancies so as to preserve the continuity of the lives of working-class families.

With his apt invective, 'In the long run we are all dead,' Keynes once dismissed the classical long-run nonsense that placed the burden of economic adjustment and insecurity on the lives of working-class families. My assertion is that Keynesian economics, especially of the post-war neoclassical synthesis variety, though moving in the right direction, did not go far enough. In policy, it did not couple its activist short-run aggregate demand policy program with the required program for a direct adjustment mechanism in the longer run. Theoretically, it did not make a clear break with the market mentality and its evaluative criteria in order to clear the way for a new standard of economic valuation and a revitalized economic philosophy (Keller, 1983). I think the current crisis may be an opportunity for mainstream Keynesians to reconsider the different conception of matters economic urged upon them by their left-Keynesian colleagues, the institutionalists, and to embrace a direct adjustment mechanism as a long-term program rather than as merely a temporary emergency reaction. If so there can be positive substance to their joint repudiation of the magic of the market as practised in Reagan's *voodoo economics*.

9 The Institutional Crisis of the Corporate-Welfare State[1]

Our citizens attend to public and private duties, and do not allow absorption in their own various affairs to interfere with their knowledge of the city's. We differ from other states in regarding the man who holds aloof from public life not as 'quiet' but as useless.

Pericles.

Now the Welfare State is a delightful creation . . . But as an idea it leaves something to be desired . . . Our ideal is – or should be – the Creative State, or the Creative Society.

C.E. Ayres, 1967.

INTRODUCTION

The initial response to the crisis of the corporate-welfare state is nativistic: 'Give us that old time religion.' In almost every democratic industrial society, retrenchment has become the primary motive of social economic policy. In the name of nineteenth-century economic wisdom, the inter-war and post-war commitment to human development, collective goals, and social justice is being abandoned. In this chapter I examine the current institutional crisis in an attempt to show that it is rooted in the holdover of an outmoded ideology and culture that has as its concomitant result a profound ideological lacuna. The implication is that it is not the last half-century's social economic goals that should be abandoned but rather the nineteenth-century folkways and folklore that frustrate their achievement and advocate their abandonment.

[1] Reprinted with permission from the *International Journal of Social Economics* (1983).

I use the term *institution* to refer to a configuration of power and a constellation of beliefs. Any society contains a power structure or set of control groups that have the discretion to make and implement decisions. The powerful operate in the context of a culture that provides them with guiding principles and speaks to the legitimacy or illegitimacy of their power and its use. An *institution* is then a cluster of mores that distributes power or authority (Ayres, 1952, pp. 42–50). *Culture* is a set of significant meanings that emanate from and structure interpersonal relationships. Any society carries on a culture by means of the stories told and models of, and for, reality that are displayed within it. The powerful, and everyone has some power notwithstanding its obvious stratification, attempt to have told stories that legitimate, preserve, and extend their power (Galbraith, 1973; Stanfield, 1979; and King and Woodyard, 1982). Culture in this sense significantly influences the individual personalities and social characters of a society.

I use the term *crisis* in its ordinary sense of a perceived insufficiency *vis-à-vis* felt needs that implies an impending change in the extant ways and means of thought and action. Although my primary interest here lies with the state and although the crisis may be most apparent in that sphere, I use the compound expression, *corporate-welfare state,* to indicate that the crisis is nonetheless much wider, fully engulfing the private as well as public means by which behavior and thought are structured and coordinated. Much of my argument has to do with the ideological lacuna of the welfare state, but there are similar lacunae surrounding the large corporation and trade union. These lacunae are intertwined with respect to their causes and their effects. Moreover, much of the crisis of the state is bound up with its setting in a corporate society.

> The institution that is legally accountable to the public cannot meet public needs effectively while the private institutions that are not so accountable consistently pursue policies that are at odds with public needs. In this instititional context the actual responses of the welfare state often sow the seeds of new dislocations. The welfare state is at once a casualty and a catalyst of the crisis gripping the political economy of advanced capitalism in the United States.
>
> (Best and Connolly, 1976, p. xi.)

> The expansion of governmental functions of social coordination in recent decades . . . has led to the notion that the prime exercise of social control is done by the government. On the contrary, so long as investment decisions are made by the corporations, the locus of social control and coordination must be sought among them; government fills the interstices left by these prime decisions.
>
> (Braverman, 1974, p. 269.)

Finally, this compound expression indicates the need to take a holistic perspective in attempting to overcome the ideological lacuna that precludes effective institutional reconstruction. The sharp separation of social spheres, especially between the state and private (now corporate) enterprise, and the assignment of social problems among these spheres is in need of reconsideration if the needed reconstruction is to be achieved. A positive and normative theory of the corporate-welfare state is needed but its development is impeded by the persistent tendency to think in terms of nineteenth-century realities. As a result, the corporate-welfare state is approached negatively, in terms of what it is not and of the functions and values that it does not necessarily embody. To the left, it is not socialism; to the right, it is not capitalism. The ideological lacuna results from the failure to view the corporate-welfare state on its own terms and develop for it a positive and normative theory of its structure, function, and goals (Furniss and Tilton, 1977, ch. 2).

THE LEGITIMATION CRISIS

The predominant power structures of the corporate-welfare state are failing in important ways with respect to popular expectations of their performance. These structures are perceived as being unresponsive to popular concerns, especially newly emergent concerns. They are losing their legitimacy by their seemingly erratic and arbitrary performance, and the apparent lack of adequate mechanisms of accountability by which the citizenry can guide them toward better performance of their duties with respect to the public interest.

The legitimation crisis of the state turns upon its fiscal and bureaucratic facets. Fiscally, the crisis of the state involves the widely held opinion that the state spends excessively, is impotent in the area of cost control, and places an unduly heavy burden upon its taxpayers. These concerns are widely prevalent and highly visible, particularly in the fiscal plight of several prominent municipalities, the seemingly uncontrollable increases in the Federal deficit, and the exposés of apparently wasteful expenditures. Then, too, events, from California's Proposition 13 to the tax policy of Reaganism, signify the tax revolt that has also spawned legislative initiatives to establish strict limits and formulas for government spending. Excessive public spending is also rather widely perceived as the principal road block to reducing the rate of price inflation. Gaines (1979, p. 2) no doubt expressed the opinion of many Americans in his observation that 'public policy aimed at constant growth has virtually outlawed deflation and virtually guaranteed inflation. The upshot . . . is that public policies have created a steadily growing role for government, annual budget deficits and, as a consequence, the most disturbing inflation the country has ever experienced.'

In a similar vein, Burns (as quoted in Herly, 1978) has commented: 'In fact, a recession often performs an unavoidable function by forcing business managers to improve efficiency, but enabling interest rates to come down, and by wringing some of the inflation out of the economic system. Recessions are passing developments in the life of a nation, and a government that becomes obsessed with such phenomena cannot develop the sustained policies that are needed to assure a better economic future for its people.' It appears that Gaines and Burns would roll back the half-century old commitment of economic policy to high employment and economic stability.

The bureaucratic crisis of the state consists in the complaints that the state apparatus is remote from and unresponsive to its populace, and that it practises excessive regulation and proliferates bothersome and costly red tape. Around the issue of red tape there is virtually universal consensus: everyone hates it. Yet, despite its universal unpopularity, red tape has risen, and continues to rise, to new heights (Kaufman, 1977). The paradox of universal detestation and wide proliferation of red tape is easy to resolve; it is similar to market competition: no one enjoys being subjected to red tape (or competition), but it (or competition) is seen as necessary to keep the other fellow honest. Hence, every new spending program generates an extension of bureaucracy and procedure to carry out the program and separate eligible and intended recipients from invalid and unintended claims upon the public purse. The rule of law requires that impersonal procedures and regulations be followed. This is necessary to ensure that the spending programme is administered evenhandedly and not left to the arbitrary whim or even best judgment of the official carrying out the program. This is not to neglect, however, the complaint that government agents are indeed arbitrary in meting out the public purse. If this complaint is well-founded, it means that the red tape is failing in its function and the rule of law is not being observed. It does not mean that red tape can be discarded, only that it needs improvement.

The necessity of red tape would remain even if the citizenry were highly moral and honest in their dealings with the state. Honest questions of eligibility would arise in the best of moral climates and these would necessitate procedures and criteria aimed at administering the spending in accordance with the intent of the legislature. Also, even in this best moral climate, some genuinely grey areas, claimants positioned in the interstices of legislative directions, would exist and by their existence necessitate judgment and personal action on the part of the administrative official. By their existence, also, these ambiguous cases leave room for some arbitrary action on the part of the official.

The red tape problem is greatly exacerbated, however, in a world in which ordinary (as opposed to morally and criminally deviant) citizens cannot be relied upon to press their claims upon the public purse only if they honestly feel themselves entitled to the benefits of the program as legislatively mandated. Conscious misrepresentation, especially in dealing with large organizations, appears to receive little if any social opprobrium among the populace of democratic industrial society. Public programs in medical care, housing, tax devices, and various subsidies have been rampant with scandal and abuse. Each disclosure of malfeasance elicits demands for closer surveillance and monitoring of public fiscal arrangements. That is, each failure of red tape generates more red tape. As I discuss below, it is more than possible that this is a will-o'-the-wisp, in that a failure of human character is involved which cannot be solved by increased formal accountability. The problem of character requires accountability informally in the relationships in which character is formed. Friends, relatives, classmates, colleagues, and so on must be called upon to apply direct, personal pressure.

The crisis of the regulatory strategy has been especially pronounced and visible in recent years. Conservative economists have aggressively re-opened the debate on the effectiveness of the regulated public utility concept. There is a very real problem in the structure of the regulated industry in that the regulatory commission tends to become a spokesman rather than a disciplinary force for the industry regulated. There are several reasons for this in addition to out-and-out graft. The regulatory official over a period of time becomes familiar with the people in the industry and develops empathy for them and appreciation of the industry's situation as seen by them. Moreover, the importance of the regulatory agent is a function of the importance of the industry. Then too, strict regulation would undermine the utility's ability to compete in capital markets and cause a long-run deterioration of service. The regulatory agent, therefore, has several reasons to promote the industry's interest.

General or social regulation other than public utility regulation is, if anything, under a stronger seige than utility regulation. By general regulation I refer to the government's surveillance of food and drug products, environmental impacts, working conditions, product safety, truth-in-lending, truth-in-advertising, land use, and so on. Corporations, either directly or through trade associations, have aimed a strong advocacy advertising campaign at government regulations. This attack can be seen in full-page or double-page advertisements in popular periodicals which lament 'over-regulation' and point up its nuisance value and costliness. The National Cotton Council rhetorically queries 'who pays for over-regulation?' and answers that the consumer does. An advertisement by Bethlehem Steel notes that the steel industry 'must comply with 5,600 regulations from 27 Federal agencies. It's a wonder we get anything done.' The advertisement goes on to point out that American consumers and taxpayers ultimately pay the tab for over-regulation. Such advertisements are not limited to general regulation; public utility regulation receives its share of attention. The Rural Electric Co-operative Association admonishes consumers that they pay for the increase in the cost of building power-generating plants, and that this rising cost is due in large part to the 'big ball of red tape called the regulatory process.' Finally, amidst the unfolding drama of the nuclear accident in Pennsylvania in March of 1979, a financial figure declared on the television programme 'Wall Street Week,' that he feared the Three Mile Island incident would lead to more over-regulation of the industry.

The reaction against regulatory red tape is not, of course, limited to corporate circles. At least one consumer group has been formed to pursue a reduction in regulations on the grounds that they cost consumers more in higher prices than they yield in benefits. A poll of some two million Americans taken in 1978 found that people regard most Federal regulations to be unnecessary and inflationary. In this poll, even the two regulatory areas given passing marks were only narrowly approved. Forty-one percent of respondents considered pollution regulations as improving the quality of life, while 32 percent responded that the rules reduced welfare, and the remainder were indifferent. Thirty-eight percent cited regulations on advertising and labeling as having a positive effect, while 31 percent responded in the negative (Anon., 1979a). Prominent Federal legislators from both houses and political parties have denounced the regulations and their administrators as 'autocratic, unresponsive, and unaccountable' as well as confused and costly (Anon., 1979b). Even some regulatory personnel are calling for a cutback in regulations. For example, FCC Commissioner Tyrone Brown 'has urged the abolition of radio regulation wherever compelling public-policy objectives do not require continuing oversight' (Schorr, 1979, p. 28). As a result of the fiscal and bureaucratic imbroglios, the state is perceived as largely impotent in the face of the problems which threaten irreparable rends in the social fabric, this even if the state is concerned about people's problems and many people doubt that the state is all that interested. The legitimacy of the state is called into question when it is seen as unable or unwilling to attend to the problems considered important by its citizenry.

Notwithstanding the importance of public disaffection as a manifestation of the legitimation crisis of the state, I do not wish to overstate the crisis. Public opinion is a slippery concept and an even more elusive fact. Of particular importance in the present context is the difference between those whose opinions indicate a tax revolt and neo-conservative withdrawal from the welfare state social contract and those whose interests in this contract are the strongest. Galbraith (1979a and 1979b) has cautioned against facile acceptance of the widely heralded shift of opinion ostensibly constituted by the tax revolt. The relatively affluent exercise a disproportionate influence on the trends and fads of public opinion. The poor and working classes are under-represented and their stake in the welfare state social contract is probably relatively larger in that the attack on public services spending is largely an attack on the relatively less affluent who rely more than the affluent on public parks, playgrounds, transportation, even education, etc. Galbraith wryly noted that he did not expect the attack on public spending to be made in areas such as air traffic safety where the affluent benefit more than the poor. I must also agree with Galbraith that a substantial part of the shift of opinion away from the positive state represents the traditional carping and nail-biting, respectively, of the conservative and liberal antipathy and ambivalence toward the positive state. The ideological lacuna of the corporate-welfare state is significant in this regard.

Although rejecting as reactionary or simplistic much of the criticism of the welfare state, Galbraith acknowledged that it has its vulnerable spots, namely (1) control of public spending, (2) quality of public management, and (3) failure of macroeconomic management. Better and more widely applied criteria that embody the concept of opportunity cost are needed to allocate public spending. The quality of public management needs improvement. Galbraith noted that, although there is no evidence to back the assertion that public management is inferior to private management, public management is still not good enough because the standards applied to it are and should be higher than those applied to private management. More education and professionalism are needed in the area of public administration. The failure of aggregate demand policy is Galbraith's third area of vulnerability. Aggregate demand management is inadequate by itself and needs to be applied in consort with structural policy. A major task on the policy agenda is to design and implement a *direct intervention mechanism* in the economic stabilization area. This could not be more clear than in the current recession exacerbated by concomitant structural changes. The needed policy mix would combine an expansionary aggregate demand policy with direct intervention to secure manpower and investment adjustments.

The legitimation crisis of the corporation stems largely from the enormous size, scope, and power of the few hundred dominant corporations. The figures on industrial and aggregate concentration reviewed by Mueller (1970, pp. 26–40) are staggering. Nor do they tell the whole story. They are reinforced by interlocking directorates, bank trust holdings, joint ventures, and corporate influence on public opinion. No wonder that Mueller raises the question of accountability:

> Because of the dominance of these powerful companies in the industrial sector, they necessarily must be the wellsprings of most economic progress in the decades ahead. This fact . . . raises the question of how vast economic power can be channelled to serve the public interest in a private enterprise economy. Are the disciplining forces . . . [of] a free enterprise economy still operative? Or have they become so blunted by sheer economic power as to require alternative forms of social control?
>
> (1970, p. 29.)

The legitimation crisis of the union institution is centered largely around the prevalence of the lunch-pail aspect of contemporary unionism. Lunch-pail unionism refers to the union's function of securing for its members improved wages, benefits, and job security. The other face of labor, the commitment to social progress for all through progressive institutional reform, is certainly not altogether absent from union practice. It is equally certain, however, that this aspect of unionism is of relatively little importance when compared to the lunch-pail aspect. General social progress is given attention in holiday fanfare and publicity releases which far exceeds its importance in the day-to-day operations of unions. Public opinion seems to be turning against union activities perhaps because of the predominance of the lunch-pail aspect by which unions lose their special social significance and become merely another set of vested interests.

All three of these institutional complexes have incurred further damage to their legitimacy in the eyes of the public by the revelation of illegal activities which are, of course, patently illegitimate because of their illegality. Covert state activities which have been uncovered and publicized, such as Watergate, CIA operations, and the GSA fraud case, have contributed to a serious disaffection of the populace with regard to its government. Bribes, kickbacks, and other illegal corporate acts have contributed to the low esteem of the corporate institution. Unions have suffered from pension fund scandals and racketeering with a similar effect on public opinion.

All three institutional complexes face a basic question as to their legitimacy, namely *accountability*. The authority of the democratic state rests upon the electoral process by which popular sovereignty is exercised. However, as explained in Chapter 5, there is currently reason to doubt this legitimation process. A deep-seated political alienation is shown by low and declining rates of political participation, not only on election days but in the everyday operation of political parties and civic activities. The tremendous expenses of political campaigns contribute to this alienation, directly by limiting the power of the ordinary citizens, and indirectly, by assuring the dominance exercised over the political process by well-heeled and well-organized interests. The citizenry is convinced that their government is remote, overbearing, and beyond their control. The ideological legitimation via popular sovereignty is confronted by the reality of wealth, power, and bureaucratic domination.

As explained in Chapter 4, the corporation is legitimated, on paper, by the traditional duality of the competitive market and household ownership of productive resources. But markets are far from competitive and there is considerable room to doubt that consumers have the information and competence to make the complex and often highly technical judgments concerning the relations of product characteristics to consumer needs. The ideological legitimation is contradicted by the reality of power.

In the case of unions, the separation of interests and power between union leaders and the rank-and-file contradicts the legitimation of union power. This legitimation is based upon the control of the union by its membership through an electoral process. Here, as elsewhere, the reality of concentrated power conflicts with belief. Moreover, much necessary support for unions comes from intellectuals and politicians who are not union members. This support is based largely on the neglected facet of the labour movement, not the lunch-pail facet. The union leadership has apparently not been accountable to this support.

In its three principal structures of power, the current social order faces a fading illusion of accountability. The belief in the traditional accountability mechanisms has long been illusory but it is now being overwhelmingly controverted by undeniable facts. As Bell has noted this 'crisis of belief' is very much in evidence within the higher echelons of the power structure as well as the general populace.

> In the United States there has been a loss of nerve on the part of the establishment; in fact, the chief characteristic of the establishment is its eagerness to repudiate its own existence. There is a widespread questioning of the legitimacy of institutions, especially on the part of the young who would normally move into elite positions. In the population at large there is a loss of confidence about the future of the country.
> (Bell, 1976, p. 244.)

Bell also speaks of a sense of weariness and despair and a deeply rooted 'anomia' that has settled in with the crisis of belief. The decline of the illusion of accountability need not lead to such disillusionment and cynicism. The results could instead be righteous anger and a groundswell of public demand for public morality and legitimacy. But this latter response would require a clear and realistic practical philosophy and structural understanding so that people know with conviction both what is right and what institutional avenues are available to them for remedying wrongs. However, this is precisely what is lacking in the face of the ideological lacuna of the corporate-welfare state. The structural crisis of the corporate-welfare state, therefore, merges into the cultural crisis; the legitimation crisis is interwoven with a crisis of character.

THE CRISIS OF CHARACTER

The crisis of the corporate-welfare state is in large part a *crisis of character*. By character I mean simply the set of attitudes, values, and capacities that characterize the personality of an individual. By social character I mean the set of such personality traits which are typical for a society or sub-system thereof. The crisis of the corporate-welfare state is a crisis of character in that these traits are inconsistent with the behaviour that is requisite for its orderly, efficacious functioning.

This theme is currently surfacing in various guises, but it is far from new. Clark (1967, p. 83) foresaw that the institutional trend of market capitalism would necessitate a human character in which responsibility is promoted as a moral imperative. As a moral imperative, the practice of responsibility must go beyond mere compliance with the law so that the individual is responsible for the known effects of his actions, whether or not these effects are covered by law. Titmuss (1969, pp. 215–43) echoed Clark's concern in a lecture revealingly titled 'The Irresponsible Society,' arguing that the welfare state, as now structured, is in reality a 'pressure group state' in which economic interests, organized and powerful, battle for favorable state action or inaction. In the US, the 'broker state' emerged in the New Deal era and set the pattern for the debacle of post-war liberalism (Markowitz, 1973). This pattern not only created a structure with bias toward cynicism and crackpot realism, in which the weakest and least organized are not well represented and public policy is incapable of constraining the most powerful and best organized, it may also account in part for the fragmented, incoherent structure of the federal bureaucracy (Shonfield, 1965, pp. 315–26). At any rate, as Lowi (1969, p. 101) has observed, in the broker state, 'liberalism replaces planning with bargaining.'

All of this points to a major problem: private gain is usurping the very areas of collective action established to correct and limit the operation of the gain motive (Stanfield, 1979, ch. 5). Collective action through the state is undertaken in areas in which the competition of gainful interests either cannot work or can do so only with anti-social consequences. The ambiguous benefits and costs, or rights and responsibilities, that generate the need for collective action are not resolved by a broker state operating in a pressure group society. The interests which can bring to bear the strongest pressure are well served but there is no reason to believe that benefits and costs or rights and responsibilities are clarified by such articulation. Indeed, if the gain motive operating under market conditions is inadequate, then there is every reason to suspect that it will serve poorly in political channels. For one thing, producer and special interests predominate. For another, social needs are frequently involved that are not amenable to the gainful calculus. The protective response to put the market in its place (Polanyi, 1957; Okun, 1975, ch. 1) becomes a self-travesty when market motives are carried over into the political sphere (Stanfield, 1979, chs. 5, 6). The broker state with its econocentric calculus is in large part the cause of the problems that Galbraith cited: the failure to develop sound criteria for managing public spending, inadequate public administration, obsolete stabilization policy, and the narrow basis of the constituency represented in public discourse.

There is a problem of character involved in all of this because any social structure is animated partly by its spirit or culture. In the pecuniary culture surrounding the corporate-welfare state, success in terms of achieving reduced inequality, improved political mechanisms, and other aspirations of progressive reform lives in the shadow of private, gainful success. 'Material success and the pursuit of professional and class symbols of success are taken to be the basis of all success' (Titmuss, 1969, p. 220). The upshot of Titmuss's argument is clear: democratic industrial society has failed to act upon Clark's vision and the manifold increase in collective action has not been matched by a proportional increase in social responsibility. This was Clark's concern when he observed:

> Modern life demands the highest qualities of character, personality, and citizenship, economic and political, if it is to work successfully, but it shows no clear tendency to develop such qualities, and some tendencies in the other direction. (1969, p. 489.)

This theme is treated in more detail and with considerably more urgency in recent discussions of the welfare state, notably in the works of Robson and Bell. Robson's theme is that the welfare state cannot function well unless it is matched by a welfare *society*. In this distinction Robson emphasizes that the welfare functions of the state cannot be effectively superimposed on any given social structure. Robson argues that there are requisite social attitudes, work organization, degrees of stability and equality, and so on which are necessary supports for the welfare state. Robson sees a decline in the citizenry's 'sense of responsibility towards fellow citizens and the community.' He persistently cites the predominance in contemporary thinking of individual rights and the neglect of individual responsibilities. 'Unless civil rights are complemented by civil duties we cannot have a welfare society' (Robson, 1976, p. 39).

Bell cites the decline of *civitas* as a key factor in the crisis of the public sector. By *civitas,* he refers to the 'spontaneous willingness to make sacrifices for some public good,' or more elaborately, 'to obey the law, to respect the rights of others, to forego the temptations of private enrichment at the expense of the public weal – in short, to honor the "city" of which one is a member' (Bell, 1976, pp. 25 and 245). Bell goes on to stress the importance of *civitas* to a liberal society.

> The foundation of any liberal society is the willingness of all groups to compromise private ends for the public interest. The loss of *civitas* means either that interests become so polarised, and passions so inflamed, that terrorism and group fighting ensues, and political *anomia* prevails; or that every public exchange becomes a cynical deal in which the most powerful segments benefit at the expense of the weak.
>
> (1976, p. 245.)

In the pressure group society, Bell sees a 'revolution of rising entitlements.' Different groups in society organize to promote their common interests, and this promotion expands the public sector's role in providing subsidies, services, or security.

> The particular demands will vary with time and place. They are, however, not just the claims of the minorities, the poor, or the disadvantaged; they are the claims of *all* groups in the society, claims for protection and rights – in short, for *entitlements.*
>
> (Bell, 1976, p. 233.)

There is, then, 'no normative commitment to a public household or a public philosophy that would mediate private conflicts' (Bell, 1976, p. 249).

The character crisis is related to the legitimation crisis in a perverse and dynamic way. In part they are related by each being related to the absence of a positive theory of the corporate-welfare state. Without reasonably clear ideas about the structure and function of the corporate-welfare state, it is difficult for the individual inside or outside a given organization to judge the legitimacy of the organization's behavior or how to act to remedy a perceived failure. Exposures of failures of organizational accountability promote the attitudes of cynicism and despair which in turn further undermine conviction and commitment. Further such breaches result because the number of those who would commit the breaches increases and the number of those who would get involved to stop the misconduct declines. 'Everyone does it' and 'that is not my problem' become the maxims of everyday conduct. A vicious circle comes into play as the crises of legitimacy and character reinforce one another.

The organization of work is an important concern in the consideration of character because the characters of individuals are strongly influenced by their work experience. This influence is all the stronger in societies with a work ethos, in which one's social and political position is heavily dependent upon one's economic function. This concern dates back at least to Classical Greek philosophy and its concern that economic activity be consistent with the individual's integrity and the good life. Writing almost sixty years ago, Clark expressed this concern, in terms highly reminiscent of Marx. Clark objected to the famous dictum that consumption is the goal of economic activity and production only the means.

> To take consumption as the end of all things corresponds to hedonistic ethics, whose standard is the receipt of pleasurable sensations, but the more modern ethics emphasizes rather the well-rounded development and use of human faculties. . . .
>
> . . . The conclusion is that the quality of the activity involved in work is more important as a positive social value than the quantity or quality of consumption.
>
> (Clark, 1967, pp. 25–6.)

However, work as structured in the mature democratic industrial society violates Clark's conclusions because too much of it is undertaken solely to secure the means for consumption.

> The consumer society is one in which the main emphasis is placed on consumption as the principal value in life, and

> production is seen only as a prelude to consumption. Work is regarded merely as a means to a higher standard of living, and the worker is concerned with little except his pecuniary reward and the forms of consumption which it brings within his reach.
>
> (Robson, 1976, p. 155.)

Robson's reference to the consumer society is important and I shall return to it shortly in the consideration of what I call the treadmill syndrome. Consider first the relation between work and political character. Democratic society places a heavy responsibility upon its citizens. It is they who must ultimately rule on policy issues. To do so efficaciously, it is necessary that they be informed, independent, and critical thinkers in the exercise of their franchise. The question arises of whether people can practise this kind of citizenship if in their work routine they are controlled, dependent, and deprived of initiative. I think not and agree with Clark's (1969, p. 490) opinion, expressed *vis-à-vis* the infamous theory of scientific management: 'Taylor's trained gorilla might be an efficient industrial worker, at some kinds of work, but he could not build a successful system of democratic social control.' For Clark (1969, p. 64) the 'most important product [of industry] is men and women.'

More recent discussions bear out Clark's sentiment. Titmuss (1969, p. 115) stressed 'the conflict between the norms of expected behaviour in the factory and those other norms of conduct which prevail in the wider society.' Titmuss's immediate concern was the influence of a man's work experience on his roles as husband and father, but his comments are relevant as well to the worker's political role. Maccoby (1976) has examined the relation between the corporate milieu and the social character of corporate executives. His study indicates clearly the impact on their personal and political lives of their corporate careers. Finally, the report of a task force commissioned by the then Secretary of HEW, Elliott Richardson (O'Toole, 1973), bears out the concern of the writers already mentioned as does the modern classic by Harry Braverman (1974).

The present organization of work reinforces or creates character traits which run counter to the liberal ideals as to what man and his society is and can be. Moreover, there is a vicious circle at work in this regard. The more the organization of work forces people to repress their spontaneity, initiative, responsibility and independence, the more it is necessary to intensify control in order to get the work done, which in turn further degrades the character of the workers. Furthermore, the less the basic dimensions of the human need for work are satisfied, the more they are sought after elsewhere, especially through more consumption, and the more, therefore, work is treated as a mere means subordinate to the end of earning an income to spend on consumption.

This leads me to the operation of the crisis of character in the area of consumption, which is referred to in Chapter 6 as the *treadmill syndrome.* The current pattern of consumption is passive, invidious, neurotic, and self-justifying. The basis of the treadmill syndrome is to be found in the very factors that gave the industrial social order its initial strength. The material incentives of individual gain, initiative, and upward mobility have fostered economic progress to an extent that was scarcely imaginable only a few centuries ago. However, unchecked by social responsibility and based upon a naive ecological understanding, this protean institutional complex is also a prescription for the social and ecological disaster of uncontrolled growth. The emphasis on individual material incentives and the growth and technological change thus served have led to a tendency to lose sight of other necessary motivations and values. Foremost among these are the decline of both *civitas,* civic and social responsibility, and *philia,* fellow-feeling and reciprocity. This in turn cripples the individual's capacity to find meaning and purpose in life by degrading the social relationships and bonds from which meaning and purpose flow.

The organization of work is here of particular importance. The drive for growth has led to an incessant revolution in the techniques and organization of work, tending always to the fragmentation and routinization of work. This reduces the craft knowledge and pride of workmanship in work and makes it difficult for the worker to find meaning and self-respect in this basic human dimension. The result is that the individual is cut off from the active interaction with nature that needs to be provided by work and sees little point in work except to secure income with which to buy things for consumption. The treadmill syndrome begins when income and consumption become the ends rather than the means of life. As discussed in Chapter 4, self-justifying commodity production follows, and attention to the art of living is sacrificed in favour of acquiring an ever larger flow of income and consumption. The seeds are thus sown for a pernicious ambiguity between human needs and their relations to things (Leiss, 1976) and therefore ambiguity as well with regard to the legitimacy of the institutionalized authority to promote production.

My story, my lamentation, is one of false consciousness. Both the legitimation crisis and the crisis of character are stories about ideological obfuscation and confusion on the part of common people and scholars alike about the nature of the good society and the place of the economy within it. The roots of this obfuscation and confusion must be sought in the nature of the market capitalist social order from which the contemporary structure of power and constellation of meanings have evolved.

THE CULTURE AND SOCIETY OF MARKET CAPITALISM

The main outlines of the compound institutional crisis of the corporate-welfare state are now in view. In large part, the cause of this crisis is the carrying over of the habits of thought and practice of market capitalism that are inconsistent with the increasingly collectivized organization of the social economy in the twentieth century. The market myth that economic organization can be left to the operation of a self-regulating market mystifies the socioeconomic process. *Mystification,* as discussed in Chapters 11 and 12, means the market myth obscures the underlying social foundation upon which the economy must operate and to which, ultimately, the economy must be subordinated. The market myth eclipses traditional ethical norms, especially those having to do with the fundamental given that human life exists in a social context that cannot function without considerable social responsibility and reciprocity among its constituent individuals.

Market capitalism in practice mirrors this ideological eclipse. As explained in Chapter 8, market capitalism everywhere and always is at war with traditional society and culture. Prior forms of production and distribution are swept away in the social and technical revolution that is incessantly present in market capitalism. Traditional verities and ethics are undermined by the transcendence of traditional social and technical limitations. Traditional motives are torn asunder and replaced with gain, acquisition, accumulation, and utilitarian individualism. The ends of life, traditionally, are sacrificed and the traditional means to life, economic activity, become ends *per se.*

This pernicious legacy of market capitalism has been variously expressed in the literature. In Marx's (vol. 1, 1967, pp. 71–83) critique of capitalism, a pivotal role is played by the concept of commodity fetishism in which impersonal commodity relations among socially isolated individuals replace the directly personal relations of human community. There is also Veblen's (1953 and 1969) insistence that market capitalism is a predatory society and culture in which sharp practice bent on getting something for nothing is legally and morally sanctioned, indeed enforced. Polanyi insisted that a market economy requires for its operation a market society and culture. Such an economy is one in which economic decisions are regulated by a supply-demand-price mechanism. The institutional or behavioral force that animates this mechanism and renders meaning to the relative prices that it establishes is competitive bargaining. Without the assumption that people move about in search of gainful opportunities and drive hard bargains to get as much as possible, these prices would not have their special relevance to allocation and distribution. Such mobility in turn requires social relationships that are subordinate to mobility and cultural contexts that legitimate gain and shape personalities accordingly. Therefore, life in a market economy 'fatefully warped Western man's understanding of himself and his society'; a distorted notion of 'inner man and society,' the market mentality, 'necessarily followed from the essential structure of a human community organized through the market' (Polanyi, 1977, pp. 10–1).

The point at hand is not lost on scholars of less leftist persuasions. Schumpeter's (1962, p. 73) depiction of the econocentric, pecuniary basis of social status in bourgeois society is noted in Chapter 12. In their analyses of the spirit of capitalism, both Sombart and Weber, despite their considerable analytical differences in other respects, emphasized the capitalistic transformation or inversion of ends and means. In Sombart's (1959, p. 30) view, 'before capitalism could develop it was needful to root up natural man with all his passions, to replace the primitive and original outlook by specifically rationalist habits of mind, to turn topsy-turvy all the values of life. The *homo capitalisticus*, that artificial and artistic creature, was the result.' Weber was no less demonstrative on the point at hand. In his view, the highest principle of the ethos of the capitalist spirit, money-making as an end in itself, was quite unique, apparently 'absolutely irrational' when viewed in historical perspective (Weber, 1958, pp. 53, 60, and 70). Weber's reference was, of course, not to all who live in capitalist society but only to that class that carries the namesake of that social order. Moreover, Weber saw no utilitarian intent in the capitalist spirit but instead a definite abnegation of the pleasures of the flesh. However, with the further evolution of capitalism, the extreme individualism and acquisitivism of the capitalist spirit is transferred to a cormorant mass consumerism. In the closing pages of his book, Weber foresaw this development. The routinization of the capitalist order renders unnecessary that order's original ascetic spirit. Its rational, calculative logic is then tied to 'purely mundane passions, which often actually give it the character of sport' and may result in a 'mechanized petrification, embellished with a sort of convulsive self-importance' (Weber, 1958, p. 182).

Marx (1967, vol. I, pp. 152–3, 592–4) referred to the capitalist as a 'rational miser' who seeks 'ever more and more wealth in the abstract,' i.e. 'the never-ending augmentation of exchange value.' He also referred, however, to the more modern capitalist who has within himself 'a Faustian conflict between the passion for accumulation and the desire for enjoyment.' Moreover, in more developed capitalism, there arises a 'conventional degree of prodigality' and 'luxury enters into capital's expenses of representation.'

Elaboration of these themes was left to Veblen's (1953) artful critique of pecuniary society. In such a society, Veblen observed, the economic means are not only not subordinate to their traditional ends, industrial serviceability or, roughly, Polanyi's substantive provisioning, but also their very lack of any such purpose becomes their prime characteristic. Invidious comparison with one's fellows, pecuniary one-upmanship, is the characteristic motivation in a pecuniary society. This comparison is effected by conspicuous consumption, a lavish display of profligacy indicative of the individual's complete disregard of technological function. It is of the essence of the wealthy individual's conspicuous display that his wealth is so great that he need not give thought to the rational deployment of his pecuniary means. Refinement in manners, cultural appreciation, and other human sensibilities become subordinate to pecuniary display and they too become mere symbols of pecuniary success. Moreover, this invidious calculus is not limited to the higher circles, but filters downward and enters the Gestalt of common men who 'strive to conceal the petty economies [they] are compelled to practise' by their relative lack of means (Mitchell, 1950, p. 15).

Tawney's 'acquisitive society' is very similar to Veblen's pecuniary society. By the term *acquisitive society*, Tawney meant a society in which the 'whole tendency and interest and preoccupation is to promote the acquisition of wealth.' Such a society by fixating the minds of its populace not upon social obligation and function, but upon self-interest, 'offers unlimited scope for the acquisition of riches, and therefore gives free play to one of the most powerful of human instincts' (Tawney, 1920, pp. 29–30). This mentality contains the familiar reversal of economic means and social ends; it neglects 'the very objects for which it is worth while to acquire riches in [its] feverish preoccupation with the means by which riches can be acquired.' This mentality is part and parcel of a perverse social order that cannot be set right until 'the instrumental character of economic activity is emphasized by its subordination to the social purpose for which it is carried on' (Tawney, 1920, p. 184).

In market capitalist society, then, the social purpose and service of economic activity is obscured, mere *having* replaces knowing and doing. After all, the criterion for possession is not the capacity to use an object, but rather the capacity to buy it. The principal meaning of the category *private property* evolves apace and comes to mean not the power to hold a thing for use, but rather the power to *withhold* it from social use in order to gain a reasonable exchange value for allowing its use (Commons, 1959, pp. 53–4). Market capitalism, then, undermines the age-old bonds, relationships, and purposes that hold society together. *Civitas*, *philia*, and reciprocity are degraded and culture is permeated with a permissive, objectified consciousness in which social relationships are demeaned to instrumental categories by which people seek to promote their gainful self-interest. As Fusfeld (1982, p. 59) has put it, the 'ultimate contradiction within the market economy is that its social relations of production do not conform to the ethical norms of a humane society.' In the pecuniary culture of market capitalism, production and consumption lose their material or technological reference and become, respectively, the earning and the spending of incomes. Non-commodity needs, capacities, and efforts are neglected and demeaned. Much that is important to the quality of life escapes concern and much that is detrimental to the quality of life is celebrated and measured as economic progress.

The liberal ethos at its best is a creed of responsible individualism. The state in this ethos is no longer a grantor of privileges but a protector of rights and provider of services, and these rights are to be exercised by, and these services provided to, eternally vigilant individuals who recognize the responsibilities incumbent upon them. At its worst, however, the liberal ethos neglects such obligations and becomes a mere defence of rights and a celebration of irresponsible individualism. Unfortunately, there is currently prevalent too much of this latter, debased liberalism, and it prohibits the reconstruction of society on a higher plane of human achievement. This is noted in some way or another by most of the sources I have cited in this discussion, but I shall provide two examples where it is said clearly and well.

> The individual has no absolute rights; they are relative to the function which he performs in the community . . . , because, unless they are so limited, the consequences must be something in the nature of a private war. All rights, in short, are conditional and derivative, because all power should be conditional and derivative. They are derived from the end or purpose of the society in which they exist. They are conditional on being used to contribute to the attainment of that end, not to thwart it. And this means in practice that,

> if society is to be healthy, men must regard themselves not as the owners of rights, but as trustees for the discharge of functions and the instruments of a social purpose.
>
> (Tawney, 1920, p. 51.)

> A conspicuous feature of the contemporary social climate is the emphasis placed on citizen rights and the almost total omission of citizen duties . . . Unless civil rights are complemented by civil duties we cannot have a welfare society.
>
> (Robson, 1976, pp. 38–9.)

Individual rights and obligations must in the good society conform to the essential ontology of the human being as a free, creative, cultural being. But their content must also evolve with the evolving structure and function of the social economy. This institutional adjustment is presently blocked by the absence of a positive theory and philosophy of the corporate-welfare state, without which needed cultural progress has no bearing. This is not to deny that there have been people in both public service and academic life who have possessed a vision of the potential of the corporate-welfare state. Their vision has not, however, been either widely shared or used to guide institutional reform.

> A remarkable fact is that in Britain we have made no attempt whatever to teach, or even to formulate, a political philosophy of the welfare state . . . Sidney and Beatrice Webb were among the founders of the welfare state . . . They . . . regarded the moral factor as the ultimate criterion of society . . . They saw the ultimate object of every scheme of reform as the spiritual and moral improvement of human character and an advance in the standard of citizenship.
>
> (Robson, 1976, pp. 82–3.)

As Robson stresses, the Webbs did not neglect the relief from economic destitution and the provision of minimum economic opportunity; however, they did not stop at this essentially negative objective, but went beyond it to the positive improvement in moral character. As Robson also makes clear, the ethical element is not the sole aspect involved in the neglected vision, there is also an esthetical dimension.

> It is historically true that [the welfare state] has so far been conceived mainly with the pursuit of negative aims such as the relief of poverty, the cure of disease, the overcoming of physical and mental handicaps, the elimination of ignorance and illiteracy, the clearance of slums and the removal of squalor. But those who have contributed most, whether as philosophers or practical reformers, to the development of the welfare state, have never seen it as limited to negative aims. They have envisaged the welfare state as providing widespread opportunities for the enjoyment and creation of the many forms of art . . . offering the fullest opportunities for self-expression through facilities for all kinds of leisure activities . . . achieving a much greater degree of participation in the making of political decisions . . . [and] above all . . . enabling the workpeople to share in the management of economic life and of seeking fuller self-expression in the processes of production.
>
> (Robson, 1976, pp. 139–40.)

Dewey, a leading intellectual light behind the New Deal that ushered in the American corporate-welfare state, was no less emphatic that economic security and abundance be viewed as a *means* to cultural progress. He attributed much of the 'crisis of liberalism' to that doctrine's accidental historical association with econocentric thinking and insisted that this econocentrism is largely fortuitous and not an integral part of liberalism (Dewey, 1963, p. 32). Indeed, Dewey's reading of liberalism was that it mandated the conversion of 'economic activities . . . into servants of the development of the higher capacities of individuals.' He saw the 'enduring values' of liberalism to be 'liberty; the development of the inherent capacities of individuals made possible through liberty, and the central role of free intelligence in inquiry, discussion and expression.' Dewey argued that the cultural progress necessary to realize these enduring values was impeded by the heldover ideas and attitudes of the fortuitous, non-essential element of liberalism. Tragically, this latter element, in the form of corporate, cold-war liberalism, eventually purged American liberalism of its progressive, Deweyist element (Markowitz, 1973).

These and other visionaries most certainly saw the potential of the corporate-welfare state for the acculturation of the masses but it seems instead that democratic industrial society is bent on the massification of culture. Even allowing for the conservative nature of artistic appreciation and the concomitant look askance at new art forms, the record seems to be that culture is being reduced to popular palates, and not that popular tastes are being refined upward to bring high culture within their reach. There is at least a failure to interpret the forms of popular culture in such a way as to demonstrate their validity as forms of artistic expression *vis-à-vis* the accepted canons of aesthetic judgment. Any final judgment of popular culture must await this interpretive effort which has barely begun. However, it seems clear that the neglect of the ethical and aesthetic dimensions is a serious failure in the corporate-welfare state because it is culture that vests social life with meaning and purpose, without which social integration and stability are impossible. In Bell's words, 'the social order lacks either a culture that is a symbolic expression of any vitality or a moral impulse that is a motivational or binding force. What, then, can hold society together?' (Bell, 1976, p. 84).

This concern for social cohesiveness was precisely that put forward by Polanyi in his double movement of the nineteenth century (Polanyi, 1957, p. 76). He saw that the disembedded market capitalist economy was a threat to social integration and stability because it fostered the economic permeation of all facets of social life, especially political discourse, ethics, and aesthetics. Polanyi saw also that society met, and continues to meet, this threat with a protective response to constrain and remedy the reach and effects of the market capitalist economy. This response culminates in the corporate-welfare state but it can be brought to full fruition only when it, and the market economy that necessitates it, are seen clearly for what they are. To date, democratic industrial society, struggling along within the throes of interventionist drift (see Stanfield, 1979, chs. 5, 6), has sought to erect a collectivist governance over a microsocial basis which is trenchantly privatistic in its habits of thought and practice. To use Bell's words again:

> The liberal society was originally set up – in its ethos, laws and reward systems – to provide individual ends, yet has now become an interdependent economy that must stipulate *collective goals*... In more mundane terms, the society must

> devote itself more and more to the production of public goods at the expense of private goods, and to the nurturing of a public rather than a private sector.
>
> (Bell, 1976, p. 176; also Robson, 1976, p. 83.)

CONCLUSION

Much of my argument turns on the intellectual or ideological confusion concerning the nature of the corporate-welfare state. In practice, it is the matter of common or popular culture that is significant. Nonetheless, the specialists in ideas, the intellectuals, have a special responsibility in this regard. Furniss and Tilton note the ideological lacuna in question and the special role of intellectuals in assisting the populace in coming to grips with the new social order in which they live.

> Modern citizens want and need to understand the major structural features and evolutionary tendencies of their societies. They want and need a general perspective with which they can evaluate the general contours of their societies, proposals for change, and their costs and benefits. It should be a primary goal of a democratic social science to help citizens take their bearings in society by providing them with descriptions of such general perspectives for ordering and evaluating political activity.
>
> ...The central phenomenon in advanced western nations is public intervention in economic markets and property relations; the central issue is the form and goal of this intervention.
>
> (Furniss and Tilton, 1977, p. x.)

Ayres was also insistent about the 'ideological responsibility' of the intellectuals. 'As scholars, we economists have a responsibility to understand something of the nature and functioning of the ideology of our own society, and to convey this knowledge to the intellectually less advantaged community' (Ayres, 1967, p. 7). Ayres saw as part of this responsibility recognition of the limited vision thus far put into practice in the corporate-welfare state. Although the best way of life yet devised by humanity, he thought this social order to be too passive, excessively consumeristic, and insufficiently oriented toward an institutional imperative for individual development, creativity, and excellence (Ayres, 1967, p. 11). Ayres clearly thought that something was awry in a culture that valued consumption as an end in itself rather than as a means to the good life.

In the final analysis, the crises of character and legitimacy merge and pose for responsible intellects the problem that Rohrlich has referred to as Clark's 'unmet challenge' (Rohrlich, 1981, p. 347). The personal freedom inherent in a society of free exchange puts the resources of increased leisure at the disposal of the individual. The affluence behind this leisure may be a corrupting force or one that is used for human advance. Social reform and cultural change will be necessary to secure the latter possibility. The intellectual challenge is to provide a coherent theory of freedom and reform that can make this possible.

The economist, in order to help and not hinder in meeting this challenge, needs an economics that is social in the sense of being broadly concerned with the total integration of economy and society and with the total consequences of economic activities and institutions (Rohrlich, 1977, pp. 332 and 336). I agree with Rohrlich that this economics must go 'beyond self-interest' to consider the mutual interests and obligations of those who share the common trait of being human. Social economics must help in the derivation of alternatives to the pressure group society with its broker state because this institutional configuration is inadequate to the problems of the United States and other democratic industrial societies.

> Now . . . new problems confront America, problems not of distributive justice but of the common good. We must give up the image of society as a battleground of competing groups and formulate an ideal of society more exalted than the mere acceptance of opposed interests and diverse customs. There is a need for a new philosophy of community.
> (Wolff, quoted by Rohrlich, 1977, p. 331.)

Such an economics must be a moral science. By his example and his work, Rohrlich is testament that the economist as a moral scientist is not a moraliser whose social enthusiasm has run amuck to the detriment of his role as a positive scientist (Hutchison, 1981, Ch. 3), but rather a scholar who recognizes that economic relations are social relations and as such must be ethical relations. A price is a relation among people; as such it cannot be divorced from the norms and sympathies that govern their existence as human beings.

Of such an economics, a social economics, I remain optimistic both that it can be instrumental in resolving the crises I have discussed and that it will some day gain the acceptance necessary to thus serve. It will be useful in meeting the challenge of affluence because it does not take economic decisions in isolation and prejudge human motivations and the concrete relations between human ends and means. It will be useful because it refuses to assume the worst of human nature and hope for the best (efficient) outcome, but tells instead a different story: if people want a better world, they must struggle to be better people. Such an economics may someday get its chance because it possesses more explanatory and instructive value than its traditional counterpart in a world experiencing, in words no less compelling to me as I read them now than when I shared the dais and heard our honoree speak them a few years ago, 'a renaissance of civilized man's eternal quest – not just for individual betterment, nor even for social betterment in a purely material sense, but for the Good Life in the Good Society, for the Family of Man' (Rohrlich, 1977, p. 333).

Part Three
On Marxism and Institutionalism

Liberalism must now become radical, meaning by 'radical' perception of the necessity of thoroughgoing changes in the set-up of institutions and corresponding activity to bring the changes to pass.

J. Dewey, 1935

Karl Marx was the originator of institutional economics, for he was the first nineteenth-century economist to direct attention to the process of institutional change within the economic system.

A.G. Gruchy, 1947

Surely the species that has found its way from savagery to husbandry, and from husbandry to automation can do better than what Karl Marx called capitalism.

C.E. Ayres, 1972

10 Limited Capitalism, Institutionalism, and Marxism[1]

The assumption that economics must now abandon . . . is that of consumer sovereignty – and, in light of the role of the modern state in the economy, what may also be called citizen sovereignty.

J.K. Galbraith, 1969.

The imagery of choice . . . means that this choosing . . . controls the economic system. And if choice by the public is the source of power, the organizations that comprise the economic system cannot have power.

J.K. Galbraith, 1973.

This chapter examines a part of the relationship between institutionalism and Marxism. Particular attention is given to Ayres (1946), Galbraith (1967), and Baran and Sweezy (1966). The procedure of the chapter is to review Ayres' analysis of the underconsumption tendency of capitalism and demonstrate its remarkable similarity to the analysis of Baran and Sweezy. Then it is argued that Galbraith's analysis identifies the capitalist solution to this problem and that this analysis is important to contemporary Marxism. Finally, it is argued that Galbraith's analysis is itself incomplete without something like the Marxist theory of alienation.

I must acknowledge I only later realized how much impact Dave Gilbert's paper exercised on the development of the ideas of this chapter and should have been cited (Gilbert, 1969). I also only later realized how much the influence of Veblen accounted for the similarity of the views of Baran and Sweezy (1966) to those of Ayres (1946) and Galbraith (1958; 1967;

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1973). Chapter 13 represents a later development of these themes that asserts this Veblenian unification.

ABSOLUTE CAPITALISM

Ayres drew an analogy between capitalism and the monarchist political system. Absolute capitalism, which was said to have existed up to the fourth decade of the twentieth Century was compared with the political system of absolute monarchy. The rule of capital in economic matters under absolute capitalism was relatively unfettered and unlimited as was the rule of the monarchy in its absolute period. Such was the divine right of each. Ayres envisioned the coming of a limited capitalism correspondent to the limited monarchy in which some limitation of the rule of capital would be necessary to avoid the total eclipse of that rule.

In Ayres' analysis, the fundamental problem which forges the way toward limited capitalism is the tendency toward underconsumption crises which become persistently manifest as capitalism matures. The analytic thrust of the argument concerns the behavior of a ruling class faced with a potentially abundant economic surplus. Such abundance would, if wrongly used, rend the institutional fabric which sustains the ruling class positions of power and privilege. By wrongly used is meant used in a way which would undermine the scarcity price system upon which the power and prestige of the ruling class depends.

For Ayres then, the problem which faced absolute capitalism was the inability of the traditional institutional structure of capitalism to deal with the potential abundance of the modern productive plant.

> For every society the most important economic fact is the size of the social dividend . . . If the social dividend is less than the physical requirements of the community, famine is the inevitable result. If it is more than minimum physical requirements, then some measure of prosperity prevails . . . [E]very economic system performs a distributive as well as a productive function . . . Since distribution and production . . . condition each other, and since the size of the social dividend is of paramount importance, it follows that what is

important about any system of distribution is the effect it has on the production of the social dividend
(Ayres, 1946, pp. 22–3.)

Ayres then went on to provide a very clear statement of the now familiar arguments concerning overaccumulation of capital funds, underconsumption, and resultant unemployment. In the tradition of Veblen, the imbalance in question is that between a productive capacity governed by the progress of the technological state of the arts and a consumptive capacity governed by the institutional and income distribution structures. Ayres also recognized the tendentially progressive nature of the problem. The tendency is for the inequality of the distribution of purchasing power to grow as the 'social dividend' expands (1946, pp. 63ff).

Ayres (1946, pp. 44–50) bluntly posed the revolutionary potential of this situation.

> All revolutions do seem to have one thing in common, all seem to be the result of extreme exasperation. This exasperation is a compound of two elements. One is severe and widespread misery . . . But people do not revolt against hunger and disease . . . [W]hen widespread and severe misery is plainly seen to be the direct consequence of the stupidity and frivolity of human agencies, then revolt is imminent.
>
> Thus, the second element of the exasperation from which revolutions flow is loss of moral authority . . . Every power system, however brutal, owes its existence to the consent of the governed; and every superstition owes its credibility to some demonstrable fact . . . When that situation of demonstrable fact disappears, nothing is left to sustain the belief but the poetry which is increasingly remote from actuality . . . The resulting skepticism is one of the most conspicuous symptoms of revolutionary change . . . We are now living in such a period.

In an age characterized not by an inability to produce but by an inability to distribute, scarcity is a belief no longer demonstrable by fact. Ayres warned that the power system of scarcity, capitalism, and its moral authority, the capitalist ruling class, are potentially subject to increasing skepticism.

All this is very similar to the analysis provided by Baran and

Sweezy. Their principal concern was with the tendency for the share of the economic surplus allocated to increasing productive capacity to outstrip consumptive capacity. Of course, the structure of income distribution plays a decisive role in their analysis. In the tradition of Marx, they emphasized the tendency for the capitalist economic system to develop the productive forces absolutely as if there exists no limit. However, in fact the development of these forces is limited by the extant relations of production and the requirement that the capitalists realize a reasonable rate of profit. In their analysis of the rising investment-seeking share of the surplus, Baran and Sweezy (1966, ch. 3) indicate that this disproportionality tends to worsen. Throughout, they are concerned with the revolutionary potential of stagnant capitalism.

THE THEORY OF LIMITED CAPITALISM

Ayres argued that to avoid 'total revolution' capitalism must undergo reform or limitation. This reform must solve the problem posed by the tendency toward underconsumption crises. The state commitment to a full employment policy represents such an abandonment of absolute capitalism. The state commitment to a policy of full employment is no guarantee of its success in attaining it. In terms of unemployment crises alone, Kalecki (1943) has suggested socio-political reasons which might thwart the policy. Boddy and Crotty (1974 and 1975) have argued that the conflicts between wage and profit rates in high employment phases of the business cycle are the major causes of recent crises. Then too, there is the general problem of the anarchy of capitalist production: intraclass capitalist competition and political conflict, uncontrolled investment and technological change (Schumpeter's 'creative destruction'), inaccurate judgments in the face of uncertainty, and the lack of coordination among the various branches of economic activity. The recent energy shortage, or the surplus of automobiles, air conditioners, industrial districts, and the like, represents capitalist instability explicable neither in terms of underconsumption nor in terms of wage and profit rates. Whether the disproportionality between energy supply and demand was created by industrial conspiracy or was an honest mistake, it remains as a startling example of capitalism's lack of coordination.

Despite the truth which may lie in the revolutionary tenet that a ruling class does not voluntarily relinquish its power, Ayres (1946, pp. 78–9) argued that such a class may well change the institutions with which it wields power. Such a reform is precisely the thrust of Ayres' book as well as of the neo-Keynesian new economics which has since gained sway. Ayres considered three possible strategies for this limitation of capitalism: imperialism, public works, or redistribution of purchasing power. He (1946, p. 42) argued that imperialism provides no permanent salvation as it, like all frontiers, contains the seeds for its own disappearance. From the underconsumptionist perspective, development of a territory is necessary if commodities are to be dumped there because people must have the pecuniary wherewithal to buy them. However, this development means that the territory will eventually add its own commodities to the surfeit of commodities.

Incidentally, the author believes that Ayres' frontier analogy of imperialism, though consistent with the underconsumptionist perspective, is overly simplistic. Greater completeness would require inclusion into the analysis of profit and wage rates and natural resource availability. It is interesting, though, that the basic contradiction of imperialism does not change much with the more complete analysis. Capital, which goes to the frontier in search of cheap labor due to lower standards of living, cannot escape the basic contradictions from whence it fled. If it develops the standard of living on the frontier, capital can sell its commodities and realize its profits without facing the commodity market back home. But capital chooses this route at the expense of destroying its cheap labor by raising living standards. The fundamental conflict between maximizing the potential revenue above wages and realizing this potential by selling the commodity follows capital everywhere it goes. For all capitalists, the search is always for a world in which the labor of a given capitalist has a low standard of living, while the labor of other capitalists enjoys a high standard.

Ayres (1946, p. 93) found public works to offer no more encouraging scenario to the woes of the ruling class. An adequate flow of public works relative to full employment needs 'would very soon reach the point at which the projects would "compete with private business."' The only public works historically allowed to so compete is that of war, and 'the perpetuation of capitalism by deliberate periodic recourse to war is an impossibility' (Ayres, 1946, p. 43). For war is obviously non-consumption, and 'non-consumers never really favor non-consumption.'

Ayres thus reasoned that a reform in the distribution of purchasing power is the sole method to limit capitalism and avoid total revolution. He (1946, pp. 72ff and 129) assured the ruling class that such a change would hardly be momentous as regards its disproportionate share of wealth nor even more certainly of its power. Property is an 'income institution' and a 'control institution.' The sacrifice of a bit of the former would deter the loss of all of both for the ruling class.

Baran and Sweezy consider the same surplus-absorption alternatives. They consider the possibility that government social spending or civilian public works can be increased to offset the tendency toward insufficient aggregate demand. Such government activity is found to be limited because it would be inconsistent with the interests of the ruling class, either directly by competing with private business activity or indirectly by undermining the privileged position of the ruling class (Baran and Sweezy, 1966, ch. 6).

Baran and Sweezy (1966, ch. 7) consider military 'public works' and imperialism together. Although their analysis focuses principally on the former, the limitation of the latter with respect to surplus absorption is implicit. In contrast to Ayres' frontier development limitation, Baran and Sweezy recognize that not development but precisely the opposite is the characteristic result of imperial exploitation. However, this pattern of underdevelopment, and the necessary support of puppet regimes to enforce it, spawn national liberation movements which confront imperialist exploitation. Once in power, whether nominally neutral or socialist, these nationalist regimes limit the surplus absorption capacity of their economies on capitalist terms. Vietnam is a good and continuing example presciently emphasized by Baran and Sweezy (1966, pp. 203, 203n–4n).

Baran and Sweezy's analysis of the limited surplus absorption capacity of military spending also agrees with Ayres in its conclusion but differs in its analysis. They do not place primary reliance on popular social consciousness limiting military expenditures but emphasize instead the structure of these expenditures. Military expenditures are said to be increasingly oriented to R and D and support of highly trained technocrats rather than to investment which employs large numbers of industrial workers. The public consciousness aspect is implicitly considered in their notation of recent trends of establishment thinkers toward arms limitations and peaceful coexistence. They see these trends as tending to limit the continued expansion of military expenditures.

Baran and Sweezy provide little explicit analysis of income redistribution as a form of surplus absorption. They (1966, p. 153) note that 'the growth of transfer payments has undoubtedly made a significant contribution' to surplus absorption despite being limited by the regressive payroll tax method of financing the social security system. However, they apparently feel that income redistribution like other civilian expenditure is limited by the conflict with the prestige and privilege of the ruling class. They (1966, pp. 155–6) are clearly less sanguine than Ayres about the prospects for voluntary limitation of capitalism on the part of its privileged class.

LIMITED CAPITALISM IN PRACTICE: THE NEW INDUSTRIAL STATE

The response of capitalism to the problem posed by Ayres, broadly speaking, is twofold: militarism and managed consumerism. The tremendous absorption of surplus productive capacity by military expenditures since the Second World War perhaps surprised the Ayres who wrote *The Divine Right of Capital.* As noted, in this work, Ayres did not consider armaments expenditures as a viable form of public works.

However, Ayres in his view that war expenditures could not be used to shore up capitalism indefinitely could not have foreseen the ingenious manifestation of the current order which we can call *peace-war.* By this elaborate double-think, military expenditures are not the non-consumption of war but the consumption of peace. The basic axiom of peace-war is that in order to avoid using armaments, we must continually pile them up and advance them technically.

More than one observer has lamented that this is poor defense (York, 1969, pp. 17–29). It seems clear that massive military buildup in the name of national security is at best misguided and perhaps downright fraudulent. Militarism and arms races probably decrease rather than increase security. But this misses the point. It is true enough that peace-war is terrible defense, but the essential point is that it is excellent capitalist economics. Peace-war defends not the nation's people and property so much as the institutions of capitalism. The threat involved is not so much military as it is the menance posed to capitalism by the spectre of underconsumption.

There is recently, however, reason to believe that Ayres may have been more correct about military expenditures, even given peace-war, than once imagined. Political forces in the early 1970s seem to be presenting a counter tendency to the persistent escalation of military expenditures. Of course, this may be only a temporary reaction born of the current economic crisis and the debacle in Southeast Asia. Nonetheless, debates on detente, military budgets, and intelligence activities have an important bearing on the topic at hand.

But even if the political challenge to military expenditures represents a more permanent trend, it would be premature to mourn or rejoice the imminent transformation of the current order. For capitalism retains at least one more strategy to thwart the ogre of underconsumption. This is managed consumption. It is in this area that there is to be found continuity between limited capitalism and the new industrial state.

Ayres argued that limited capitalism must involve a program of income redistribution. The ground has been laid for a reformist program of income redistribution which does not spell doom for the privileged class of the capitalist order. This is shown clearly by the Galbraithian theory of managed consumption. On the one hand, the state has undertaken the task of maintaining the macroeconomic balance of purchasing power and output. On the other hand, the corporate planning system attempts to maintain microeconomic balance by advertising and planned obsolescence.

The point is that the Galbraithian revised sequence represents a form of limited capitalism which may well be able to maintain a sufficient volume of purchasing power on the part of the masses without sacrificing the ruling class's monopoly of accumulated funds and the power and privilege therewith associated. The masses would receive only such purchasing power as is necessary to clear the market and they would be manipulated to spend in order to do so.

So long as the masses could be so manipulated, a substantial redistribution of income could occur without the corresponding redistribution of power that has been traditionally associated with such an alteration of distributive shares. That is, given the argument of the revised sequence that consumer sovereignty is no longer operative, then the conclusion follows that income and consumption no longer represent the power to control the allocation of resources. To retain meaning with regard to the theory of *value* and social organization, income must represent the command of its recipient over the disposition of productive resources. Likewise, consumption must represent the willful expression of the individual in the disposition of his income. It is necessary to distinguish mere conscious behavior and truly willful behavior. The purchase of a brand of beer or detergent may be conscious in that 'I desire' is a conscious statement. But if the consumer, while consciously buying a beverage or cleansing agent, is subconsciously buying promises of whimsical camaraderie and romance or nuances of rock-hard, muscular sexuality, then 'I desire' is not willful behavior. If the American consumer, unable to will friendship or sexual gratification desires commodities, then the American consumer is not a willful being, however rational he or she may be in the purposive pursuit of want satisfaction. To the extent that consumers are manipulated in the disposition of their income, to that extent the presumption that this disposition meets the developmental needs of living individuals is no longer tenable. If consumption ceases to mean human development and becomes a mere empirical statement of commodity flows, it ceases to mean much in relation to human purpose and social organization (see Chapters 4 and 5).

Thus, as befits an increasingly Orwellian world, much income and consumption must be viewed as *non-income* and *non-consumption* from the essential or philosophic perspective. This perspective requires that consumption be instrumental toward the development of the human condition. Just as peace-war creates the appearance of non-consumption as consumption, so also does consumption management allow non-consumption to appear as consumption.

MARXISM AND INSTITUTIONALISM

From the above, it is possible to hypothesize on the relationship between Marxism and institutionalism. This is that a symbiotic relationship exists between the two intellectual traditions. Both can learn from the other and perhaps be strengthened by synthesis. Neo-Marxist analyses of the social process can gain substantially from the institutionalist analysis of power and the economic process. In particular the Galbraithian revised sequence should call forth significant re-examination of Marxist economics.

The essential point is that the law of value of the competitive market or price is no longer operative (Sweezy, 1968, p. 53). The market is no longer an impersonal mechanism in which supply and demand form a Marshallian cross and point of exclusion. Rather, the implication of the revised sequence analysis is that the market and its price relations form an instrument of planning or manipulation.

To an extent, this point has been recognized by neo-Marxists, such as in Baran and Sweezy's concept of the economic surplus and its waste. Indeed, a principal feature of neo-Marxist economics is that it differs from its parent in its addition of the economic surplus concept to the earlier concept of surplus value. Surplus value is one historical form of surplus labor. Surplus value is preponderant and decisive when the competitive law of value is dominant but is eroded along with this law of value. The use of the more general economic surplus concept occurs in recognition of the rise of monopoly capitalism in which advertising, the government sector, and other assorted middling activities increase to volumes which would have been unfeasible under the reign of competition. However, the point connected with the revised sequence is not sufficiently recognized, as when Baran and Sweezy (1966, p. 53) view the monopoly capitalistic system of corporate relations as being overall

> . . . as unplanned as its competitive predecessor. The big corporations relate to each other, to consumers, to labor, to smaller businesses primarily through the market. The way the system works is still the unintended outcome of the self-regarding actions of the numerous units that compose it. And

> since market relations are essentially price relations, the study of monopoly capitalism, like that of competitive capitalism, must begin with the workings of the price mechanism.

In the very next paragraph, the authors recognize the 'crucial differences' between the two stages of capitalism as being that between a price taker and a price maker. This is indeed a crucial difference, so crucial in fact as to destroy the analytical grasp provided by the 'workings of the price mechanism.' The revised sequence flows not from consumption ordering production but from production ordering consumption. The relations of the limited capitalistic corporate world are planning relations, and planning relations are those of politics and power not those of the price mechanism. That the planning in question is of a private and partial character rather than of a social and complete one is important. But this import should lead to criticism of a poor planning system rather than to denial of its existence.

Insufficient recognition of the nature of limited capitalism leads to another misdirection of scrutiny. Despite instances to the contrary, Baran and Sweezy retain a great deal of the traditional underconsumptionist stress on the level of total output and employment. But the social malaise of limited capitalism is clearly non-consumption consumption, that is consumption in the interest of production.

Turning to the other side of this symbiotic relationship, the Galbraithian analysis of limited capitalism in practice is incomplete. Galbraith describes the process of manipulation and the portentous implications of the revised sequence for 'economics and the public purpose.' But he offers no explanation of the manipulability of people. Certainly one is allowed in modern social science an implicit assumption of some degree of behavioral psychology. But the radical importance of the revised sequence necessitates more explicit concern with the psychoanalytical component of socioanalysis. Moreover, it is philosophical or humanist psychology, not behavioral psychology alone, which yields the evaluational content required by the revised sequence.

To round out Galbraith's analysis, it is necessary to incorporate into it the Marxist theory of alienation – to which we find no counterpart in institutionalism. Alienation is manifest in the lack of outlets for the expression and satisfaction of important human needs. These include the needs for meaningful work, a sense of belonging and purpose, expressive sensual and intellectual relations to other human beings and the rest of nature, and the like. The incapacity of contemporary society to fulfill these truly human needs admits the creation of false needs. Advertising, political propaganda, and so forth, can manipulate people by creating a false need derivative from the repressed human need. Community and belonging can be suggested to be available through drinking a particular brand of beer or through supporting a patriotic political figure. Sexuality can be suggested to be available through the media of a powerful automobile or a virile political candidate. Purpose and sense of power over one's destiny can be suggested to be obtainable by guerilla terrorism or suicidal self-sacrifice. The Galbraithian analysis passes from the descriptive and reformist to the profound and radical once this foundation of the processes he describes is understood.

11 Radical Economics, Institutionalism, and Marxism[1]

The religious reflex of the real world can . . . only then finally vanish, when the practical relations of every-day life offer to man none but perfectly intelligible and reasonable relations with regard to his fellowmen and to Nature . . . The life-process of society, which is based on the process of material production, does not strip off its mystical veil until it is treated as production by freely associated men, and is consciously regulated by them in accordance with a settled plan.

K. Marx, 1867.

Political economists see their task as demystifying Modern Economics, helping young people everywhere to discover a world of passionate possibilities.

E.K. Hunt and J.G. Schwartz, 1972.

The argument here is that the Marxist and institutionalist traditions are similar in many respects, notably that both are inherently radical in their approaches to the economic system. There is an ongoing need to assay the similarities and differences between these two vital intellectual traditions. The phrase 'inherently radical' is used advisedly. It is argued in what follows that the two intellectual traditions are inherently radical owing to the character of their respective philosophical and methodological orientations.

ESSENTIAL ELEMENTS OF RADICAL ECONOMICS

It is first necessary to elucidate the essential elements of radical economics. Clearly, a radical economics must be concerned

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with the roots of the economic system, inasmuch as this is the literal meaning of radical. Just as clearly, however, the term radical generally connotes more than this. It connotes a critical perspective or oppositional stance toward the economic status quo. A radical economics must therefore contain a subversive as well as a fundamental orientation. In short, a radical economics must examine the roots of the economic system in such a way as to generate subversive implications. Closer examination of this twofold definition of radical economics should yield a framework for consideration of Marxist and institutionalist economics as radical economics.

The foundations of the economic system are found in the relations among human beings and in the relations of human beings to the rest of nature. The first of these relations, human-to-human, involves power and social stratification. All human societies historically, save perhaps the most primitive, have been stratified. Certain strata of the human social order have enjoyed privilege and status relative to other strata. This privilege generally includes important economic dimensions, in that an important social relative is the power to direct the utilization of societal resources. This includes the dimension of privileged consumption behavior owing to income distribution inequality, as well as the more important influence exercised over investment owing to wealth distribution inequality.

The human-to-human relations contain another general set of relations in addition to those of social stratification. These are the relations of cooperation. The human being is a social animal who cooperates in various ways in its life process. Legal systems, language systems, monetary systems, and so on reflect the cooperative relations of the social human. Perhaps the most fundamental of the cooperative relations is the productive system. This involves coordinated activity directly, such as in group hunting. It involves, as well, a less direct coordination, which is involved in division of labor, generally.

Human relationships, seen as those of social stratification and as those of cooperative productive activity, are very much interrelated. Social stratification evolves from division of labor and reinforces division of labor. The intensification of the one has historically gone hand in hand with the intensification of the other. The cooperative work process requires coordination by some orchestrating force. This coordinating force can also be a controlling or ruling force. The distinction between coordination and control is important and will come into play below. Coordination is internal and harmonious with the activity in question; control is external to and potentially inconsistent with that process. The conductor of an orchestra is an integral part of the orchestra and provides coordination. The owner of the music hall who, for example, dictates the selections to be played as a condition for the use of the hall, is an external, controlling force.

The cooperative human relations in the sphere of production merge into the relations of humanity to the rest of nature. The important economic categories, work and technology, represent the interface between the two fundamental relational sets under discussion. Human work is of crucial importance to discussions of human-to-human relationships in both the cooperative and stratified forms. Human work through the mediating category of technology is also the fundamental economic relationship to nature. Work is the activity of transforming nature into forms more appropriate to human needs. Technology itself, which includes the instrumental aspects of the human brain and hand, is nature transformed so as to facilitate further transformation. A radical economics must concern itself with stratification, power, cooperation, work, and technology because these are the roots of the economic system.

The second requirement of a radical economics, that such an economics contain a subversive thrust, requires little attention. The status quo of the period which concerns us is the capitalist social order. (On the question of radical economics in relation to the existing socialism, see Stanfield, 1976.) A radical economics within this social order must raise questions which undermine the market capitalist ideology and indicate a counter-ideology. The natural ordainment and essential efficiency and equity of the system of private property and competition have always constituted the core of the market capitalist ideology. If it be countered that natural law philosophy is no longer a part of the ideology, it is enough rebuttal to mention the conventional wisdom on matters of incentives and human nature.

It follows that a radical economics must attack the consonance of market capitalism with natural ordainment and/or the importance of this ordainment. After subverting the paralytic wisdom that what is must be and therefore should be, a radical economics must raise questions about the essential efficacy and equity of the capitalist order.

The task of radical economics is thus clear. Such an economics must analyze the fundamental features of the economic system in such a way as to challenge institutional and ideological configurations of the market capitalist social order. It can be noted, though it may also go without saying, that orthodox economics is not radical economics. Orthodox economics is bound within the capitalist order. Its preoccupation with exchange fails to penetrate the roots of the economic system that are found in the realm of production. Its questions are generally supportive rather than subversive of the capitalist configuration, either directly by eliciting responses favorable to that order, or indirectly by eliciting responses which have no discernible relation to anything that matters to reasonable people.

METHODOLOGY OF MARXISM AND INSTITUTIONALISM

It is now the task of this chapter to demonstrate that Marxist and institutional economics satisfy the dual criteria which have been assigned to the category radical economics. The methodology of Marxism and institutionalism must first be shown to penetrate the foundations of the economic order. It is unnecessary to enter into discussion of who was or was not a technological determinist to see that both traditions emphasize the category technology in their approaches to the economy. The celebrated Veblenian dichotomy between the technological and ceremonial aspects of human culture and behavior is sufficient *per se* to indicate the focus of institutionalists. The technological continuum focus is the most important, if not the sole, line of development common to all human societies. Marxism finds technology to be no less important as the unifying element of social evolution. This is most clear if work and technology are remembered to pass hand in hand as two moments of one phenomenon.

The point is that both intellectual traditions recognize and integrate into their economic theory the basic role played by work and technology. The institutional theory stresses tension between the ceremonial rigidities of ideas and behavior and the adjustments made imperative by technological change. Institutional adjustment proceeds with a lag and with social costs higher than they would be in a rational society. The Marxist analysis is similar. Technological change and not mere accumulation of given productive apparatus is the key to the development of the productive forces. This development must eventually overcome institutional resistance – the fetters which are burst asunder by the development of the productive forces.

Moreover, in both intellectual traditions, work and technology are integral to the conceptions of human nature and the analysis of power and social stratification. The sketch just given of technology and social change implicitly includes the latter. The Marxist class analysis and the 'vested interests' of institutional theory of both point up questions of power and social stratification. For Marxism, the control of technology by the ruling class is an alien and alienating force which the development of technology tends always to destroy. For institutionalism, the vested interests or absentee owners represent a similarly alien force in conflict with the rational development and deployment of the productive forces.

For both analyses, the distinction between the coordination function internal to the work process and the control function external to that process is crucial. The coordination function for both is necessary to the cooperative process of work in that division of labor and specialization require orchestration in order to operate. But coordination is internal to the work process and is consistent with the needs of the 'associated producers' (Marx) or the workmanlike 'common man' (Veblen). The control function by contrast is external to the work process in that it represents the interests of the ruling class or absentee owners and is not necessarily or even probably consistent with the rational development and deployment of the productive forces. In both analyses the interests of the few and powerful are contrasted with the interests of the many and powerless. In both analyses, the powerful represent an alien force controlling and subverting to their own ends the work of the many. In short, both analyses approach social stratification from the perspective of control of work and technology.

Work and technology can also be shown to be pivotal for both traditions in defining human nature. Marxism defines the human being by praxis, creative work (see Stanfield, 1975b). Veblen noted the 'instinct of workmanship' among the four basic propensities or 'instinctive dispositions' of human nature. Both analyses conceive of the human being as an inherently active and creative being and look to the institutional environment for explanation of inertia and the thwarting of creativity. Both traditions view human nature in behaviorist terms but with the productive process as the fundamental conditioning element. Both traditions therefore view the human species as self-creative via the work and technology process at the species level, and both view the individual human being in behaviorist terms. It is worthy of incidental notice that both share a common defect, namely the failure to generate an adequate psychoanalysis to complement their socio-analyses. The Marxist tradition is somewhat more advanced in this area with its theory of alienation. This is understandable, given the almost total neglect of the individual by institutionalists since the instincts-cum-environment treatment of Veblen and the behavioral brush strokes of Mitchell. (This problem is addressed in Chapters 10 and 13.)

CRITICISM OF MARKET CAPITALIST SOCIETY

The first step in demonstrating that the Marxist and institutional intellectual traditions meet the second requirement of radical economics concerns the consonance of the market capitalist social order with human nature. Though no longer explicitly cast in a natural law philosophical framework, this putative harmony is still a primary ingredient of the ideology of market competition and private property. The predominant belief remains that human nature is best suited to those institutions. The human being is seen as naturally acquisitive, self-interested, and calculative. The institutional configuration of market capitalism is seen as perpetual, once established, because it provides an environment that is consistent with this human nature and one in which the natural propensities of human beings are best marshalled to the common good. The dictum that 'you cannot change human nature' is still the stalwart axiom of conservative economic philosophy.

Both Marxism and institutionalism reject this conception of human nature and its conservative implications *vis-à-vis* the market capitalist institutional configuration. Marx was sharply critical of the classical economists for positing the character of the citizen of competitive capitalist society as naturally given rather than historically generated (Marx, 1973, pp. 83–4). In Marx's analysis, the calculating, self-interested individual was the product and not the cause of the dissolution of feudal society and rise of capitalist society. The individual as a social being is seen as primary and natural and the capitalist individual as the product of institutional development. The proletariat in Marx's analysis maintained the truth of humanity's fundamental sociality and would one day reassert this truth via socialist revolution. For Veblen, too, the self-interested calculation of capitalist society is the product of history. Veblen (1953) traces the historical rise of this individual and finds its beginning with the rise of barbarian predatory society. The individual in Veblen's savage society, which was overturned by barbarian society, was peaceable and concerned as a matter of habit with the serviceability of his economic activity to the community. Similarly to Marx, the fundamental sociality and instinct of workmanship were seen by Veblen as being carried forward in capitalist society by the immediate producers. However, Veblen was perhaps not so optimistic as Marx that the common man would one day arise and establish a new social order.

The Marxist and institutionalist analysis of human nature as a historically malleable entity versus the conservative view of an invariant human nature is part of a general difference. The evolutionary analysis of the former contains the 'preconception of process,' whereas the conservative world view contains the 'preconception of normality' and static institutions. The Marxist and institutionalist analyses are developmental; conservative analysis tends to be static (Gruchy, 1967, pp. 35–45 and 50–8).

The stress on the fundamental sociality of humanity, which is common to Marxism and institutionalism is important. It flows from their basic methodology. Their approach of looking at the historical roots of human relationships to each other and to the rest of nature leads them to focus on production rather than exchange. Division of labor arises in production and is facilitated by an exchange process. Production is clearly a social activity. It is impossible to separate human productive activity on an individual basis. The cultural heritage of language, science, and other technological processes is common to all humanity. Production is fundamentally social even when it is not directly cooperative. The analysis of production therefore must begin with the human being as a social being. The analysis of exchange, on the other hand, commences with the individual. The preconception of socialitv and of the primacy of production which is shared by Marxism and institutionalism is therefore a very important contrast to the conservative paradigm. In the latter, the analysis focuses on the individual and exchange. In this view, the exchange process, which reflects individual utility calculation, determines production.

Other differences flow from this. The conservative stress on exchange leads to the neglect of social stratification. The realm of exchange is one of equivalencies. The trading parties appear as equals exchanging value for value. There is no coercion in the exchange process and no classes. The realm of production presents quite another view. The capitalist is boss and the laborer is bossed. There is no chimera of equality. As Marx wrote:

> This sphere [of exchange], within whose boundaries the sale and purchase of labour-power goes on, is in fact a very Eden of the innate rights of man. There alone rule Freedom, Equality, Property and Bentham. Freedom, because both buyers and seller of a commodity, say, of labour-power, are constrained only by their own free will. They contract as free agents, and the agreement they come to, is but the form in which they give legal expression to their common will. Equality, because each enters into relation with the other, . . . and they exchange equivalent for equivalent. Property, because each disposes only of what is his own. And Bentham, because each looks only to himself . . . On leaving this sphere [of exchange and entering the sphere of production] . . . we think we can perceive a change in the physiognomy of our dramatis personae. He, who before was the money-owner, now strides in front as capitalist; the possessor of labour-power follows as his labourer. The one with an air of importance . . . ; the other, timid and holding back,

like one who is bringing his own hide to market and has nothing to expect but – a hiding.

(Marx, 1967, vol. I, p. 176.)

Social stratification and power, which are key categories of critical social theory, emanate from the sphere of production and control of wealth. The orthodox stress on the sphere of exchange obscures these categories.

Their shared emphasis on sociality and production leads Marxism and institutionalism to be sharply critical of the utility approach of orthodox economists. Of course, the utility approach blossomed after Marx's major writing period. But Marxists have long considered the Marginalist Revolution, which ushered in neoclassical economics, to be a reaction against the implications which Marxism was able to derive from classical economics. Institutionalists generally dismiss the utility analysis of human behavior as inadequate psychology, more important for its ideological than its scientific usefulness. Both Marxism and institutionalism reject the assumption of utility and calculation as an adequate approach to the human psyche and look instead for environmental, institutional conditioning of human behavior.

Marxism and institutionalism both view the market mentality as a blinding myth. Both seek to demystify the market process so that social control of economic activity can be established. That is, both deny that the market mechanism is an effective and equitable way to provide social control of economic activity. This is of course a denial of the basis of the market ideology. That ideology holds the market to be not only naturally ordained by its consonance with human nature, but also to provide sufficient behavioral cues to and controls of economic behavior. That social harmony follows from the self-regarding activities of individuals in a competitive milieu is the punch line of the market capitalist ideology.

Marxists see the market mechanism as flowing from and reinforcing alienation and commodity fetishism. Humanity's social relations of production in market capitalist society appear as market or commodity relations. Human relations appear therefore as relations between things and human beings are subordinated to the products of their own hands and minds.

The truth of the invisible hand concept is that the market mechanism makes invisible the fundamental sociality of human productive relations. The true character of the capitalist economic system is obscured by the primacy of the exchange process in orthodox economic analysis.

The institutionalist view of the market is that it is ceremonial behavior that is all too often antagonistic to the development of production. Making money is definitely not equated to making goods in the institutionalist theory. In the market sphere, pecuniary behavior and 'canons of taste' rule supreme. The market is the ceremonial ritual that necessitates want where there is plenty and unemployed hands where there are idle machines.

Both Marxism and institutionalism seek to demystify the market mechanism and remove the hold of the market mentality over the human mind. Both do so in order that humanity can see the primacy of society and the necessity for social control of economic activity. (See Chapter 7.) Both Marxism and institutionalism trace the convincing force of the market mentality to its usefulness to the powerful. Those who have positions of power and prestige in the market capitalist institutional configuration have a vested interest in that system. Anything that undermines the ideology of that system undermines the privilege of its vested interests. Marxists and institutionalists have consistently raised vexing questions concerning the generation of consumer preferences in contemporary capitalism. (see Galbraith, 1958 and 1967; Gilbert, 1969, pp. 26–42; and Chapters 5 and 10.) The analyses of both concerned the response of the capitalist power structure to the threat posed to it by the potential abundance of the modern economy. This abundance threatened the ideology of scarcity and thus also the vested interests of the scarcity price system. The system has responded with a massive sales effort and consumer manipulation, as well as with other forms of institutionalized waste, such as planned obsolescence and a permanently mobilized defense establishment.

That interest in the complex areas of human needs and advertising and institutionalized waste are common to Marxism and institutionalism should come as no surprise. It is no accident that both have been led to research interests which represent problem areas for the orthodox ideology. Aggregate instability has long been a primary research area of both Marxism and institutionalism, as has the general area of industrial organization and economic concentration. Labor and industrial relations have likewise been important fields for Marxism and institutionalism. These areas, along with a few others such as environmental degradation and resource depletion, are the ore of the current crisis of orthodox economics and the market ideology to which it is resolutely wedded (see Chapter 4).

In short, both Marxism and institutionalism reject the consonance of the market system with human nature. Both deny the market capitalist ideology which holds the market and private property system to be an efficient and equitable means of maintaining social control of economic activity. Both traditions are strongly in favor of some form of national economic planning and international integration. Both are led in their research programs to areas which bring out most clearly the inconsistency between the market ideology and the reality of capitalist society. It is clear then that both Marxism and institutionalism examine the roots of the economic order with subversive results.

12 Toward a New Value Standard in Economics[1]

When the liberation of capacity no longer seems a menace to organization and established institutions, . . . making a living economically speaking will be at one with making a life that is worth living.

J. Dewey, 1920.

If economic value means anything at all, its meaning is that of a gradual and continuous realization of a more effective organization of the technological life-process.

C.E. Ayres, 1944.

The economic general theory must be the theory of institutional adjustment.

J.F. Foster, c. 1950.

The reason for considering the 'practical and political implications of different views on value theory' is to further economic progress broadly speaking by furthering economic knowledge. Ultimately, better economic policy and practice awaits better economic theory, method, and philosophy. Such progress revolves around the radical notion of demystification, so I will focus on value theory in relation to that task.

Basic to my approach is the notion stressed by institutional economists, notably Ayres (1964) and Polanyi (*et al.*, 1971, ch. 13), that institutional economics has an altogether different view of the economic process, founded upon a fundamentally different definition of the root term *economic.* This I explain in the first section. In the next section, I briefly discuss the task of demystification. In the third and major section of the chapter,

[1] Reprinted with the permission of James Rock, Chair of the Economics Department at the University of Utah, from *Economic Forum* (1982). Parts of this chapter were published in a similar paper in Alfred S. Eichner (ed.), *Why Economics is not yet a Science*, by M.E. Sharpe, whose permission to reprint is also gratefully acknowledged.

I discuss the substantive standard of value and its implications in contrast to the mainstream conception of value.

SUBSTANTIVISM AND FORMALISM IN ECONOMICS

The formal definition of *economic* emphasizes the economizing or maximizing connotation of that term. The axiomatic foundation of this conception of the economic process starts with the familiar presumption of scarcity: insatiable wants in the face of limited resources implies scarcity. Faced with the ineluctable fact of scarcity, human societies confront the inevitable necessity of choosing. Any society and, indeed, especially its constituent individuals must by one means or another make priority decisions on the allocation and distribution of productive capacity. Coupled with the further ethic of rationality, economics becomes the *science of choice*, and its typical concern is the deductive exploration of the logic of maximizing under the constraint of scarcity. In this view, calculated choice oriented toward maximization is *the* economic problem, and the economy consists of a series of choices imposed by scarcity situations and informed by relative prices.

Nowhere is this more evident than in the classic formulation of mainstream epistemology provided by Robbins (1969). He argues that four conditions must be met if a phenomenal situation is to provide a problem for economic science. There must be various ends or goals, limited means for achieving these ends, these means must be capable of alternative applications, and the ends must be of varying importance. For Robbins, if these conditions are met, the behavior involved necessarily assumes the form of choice. It follows that economic science may not be concerned with concrete productive and consumptive activities at all if the activities do not meet these conditions. It also follows that any activities which do meet these conditions provide scientific problems for economics whether or not the activities are generally conceived of as economic (Robbins, 1969, p. 17). Interestingly, Robbins (1969, p. 15) also comments that 'scarcity of means to satisfy ends of varying importance is an almost ubiquitous condition of human behavior.'

Formalism commits what might be called the economistic fallacy. This fallacy is found in the tendency to raise the concrete culture of the economy in its market capitalist form to universal stature. The concerns, motivations, and meanings attached to economic activity in a very limited period of human experience are universalized and assumed to represent the essence of human economic activity at all times and places (Marx, 1973, p. 83). In a word this procedure is patently and radically ethnocentric; it sees the entire economic cosmos from the locus of meaning of one limited ethnic experience.

Robbins is aware that the formalist view is the cultural product of an exchange social economy, but he denies that this limits its applicability. He concedes that formal economic analysis 'has most interest and utility in an exchange economy' but asserts that this does limit its usefulness for non-market economies because the latter are 'conditioned by the same limitation of means in relation to ends.' Formal economic analysis is 'as applicable to the behavior of isolated man or the executive authority of a communist society, as to the behavior of man in an exchange economy – even if they are not so illuminating in such contexts' (Robbins, 1969, pp. 19–20).

As discussed in Chapter 1, the formalist view is almost exclusively focused on the exchange process which results from a given structure of preferences, capacities, habits, and technology. Empirical analysis of this structure and especially its changing character is given scant attention. The sovereignty of household preferences – both with respect to consumer demand and the supply of the factors of production – is celebrated in the abstract and no basis is provided for substantive, critical investigation of these preferences. Nor is there any basis for examining what makes one exchange economy different or better than another one in space or time.

The habitual distinction between production (read: earning an income) and consumption (read: spending that income) in the mainstream view is purely a marketing definition that can be severely misleading. From a materialist or substantive view, production and consumption are parts of the same process and it is philosophically not meaningful to differentiate them (Marx, 1973, pp. 88–100). They both are material processes in which the active element of human imagination, skill, and knowledge is applied to the rest of nature to transform the latter in order to render it more appropriate to human ends. It may be useful to separate production and consumption for purposes of economic accounting and control, so long as people fully understand the limited meaning and purpose of doing so. This condition is not met in the mystified mainstream expression of the economy and we habitually undervalue the area of non-market production with an excessively passivistic conception of leisure.

To take another example, consider the facile combination of goods and services. The only thing that ties these two categories together is that they both have exchange value in a commodity production, exchange economy. Viewed from any perspective not blinded by catallactics, especially a substantive viewpoint, the difference between things and human services is readily apparent. The identification of goods and services expresses the reification of human relations and presents an important categorical imperative for demystification (Marx, 1973, pp. 71–83). It is their common existence as exchange values that enables the capitalist, as 'master of the labor of others, [to] confuse labor power with any other agency for performing a task, because to him, steam, horse, water, or human muscle which turns his mill are viewed as equivalents, as "factors of production"' (Braverman, 1974, p. 51).

Of the utmost importance, the exchange focus is obscurantist with regard to power and social relations. As discussed in Chapters 1 and 11, Marx (vol. I, 1967, p. 176) forcefully illustrated this point in his famous statement about freedom, equality, property, and Bentham. When social relations are conceived solely as exchange relations, hierarchy and dominance are neglected. Marx's concept of commodity fetishism depicts this obscurantism not only between capital and labor but among laborers as well. The exchange focus fails to penetrate the commodity veil and demystify the underlying socioeconomic relations. The restriction of the analysis of power to the ability to influence the price of a commodity one sells or buys is a crucial limitation of the exchange focus. Neglect of a vast area of political and cultural power fatally circumscribes the conventional analysis because the extant power structure and the beliefs that condone it are surreptitiously presumed in the analysis. Fundamentally critical analysis of much inequality and social stratification and false, distorted preferences are precluded. No basis is given for confidence in the *self-authenticity* of individual preferences.

In contrast, the substantive view of the economic process defines *economic* in technological or material terms. The economy is the instituted process or culturally patterned arrangements by which a given human group provisions itself as a going concern. The focus is on the provisioning of social reproduction and on the instrumentality of economic activity *vis-à-vis* the life process. All societies must have economies in this concrete sense and the substantive view emphasizes the actual organization of production and distribution in a given human group. The economy consists of tools-plus-knowledge employed within the context of institutions. This context is one of dynamic interaction: institutions mold technology and technology molds institutions. The characteristic concern of substantive economics is the social organization or patterned arrangements surrounding humankind's relation to the rest of nature, that is the study of the human-to-human relations by which the materially reproductive human-to-nature relations are institutionalized.

Social reproduction is not simply the reproduction of the status quo because social change is incessant, if here dramatic, there imperceptible. Much of this change revolves around the interaction of technological changes. Changes in the technical apparatus, organization, or knowledge of the social, material process immediately creates tensions mandating adjustment in mores, laws, and guiding principles. This adjustment need not be simply a matter of one-sided adjustment to technological imperatives but also the shaping or restricting of technology by a human group's evaluational imperatives. This institutional adjustment is a focal point of substantive institutional analysis. Indeed, the economic problem in this view is to continuously reinstitutionalize the technological relations to nature within the social relations.

Clearly, the method indicated by this approach to the economic process is one that deals with actual technology and institutions. This is the method of institutional analysis under the aegis of which economic behavior is treated as learned behavior. The stability and recurrence of the economic process results from the way people are acculturated to perform. It is the institutional milieu within which psychological propensities operate that sustains the integration of economic activity. Institutional analysis is then more sociological than psychological.

If men appear generous at one place, selfish at another, it is not their basic natures that differ but their social organization. It is not the presence of this or that motive that is significant in institutional analysis, but instead the institutional structure in which the motives operate. Via definite institutional sanctions, this structure promotes some human proclivities and represses others.

In this view, then, economic behavior is treated as a cultural process. Its task is to develop a cross-cultural economics. The ethnocentrism of the economistic fallacy makes this impossible because it abstracts from precisely those concrete phenomena which are the pivotal concern of cultural analysis. In contrast, the substantive view, with its emphasis on the institutionalized regularities which vest the economic process with its requisite stability and continuity, insists upon the comparison of carefully documented historical situations. This comparison will enable the institutional analyst to treat economic institutions as culture traits, as expressions of human values stemming from definite patterns of social interaction.

This view insists that much can be learned from the study of past and present economies if their concrete facets are not glossed over by the presumption and abstraction of limited experience. The focus must be on actual behavior and the context of meaning in which people act economically. Utilizing the anthropologist's concept of culture, institutional analysis seeks to examine the context of meaning derived from social interaction which patterns the economic cosmos for people and provides them a guide to integrate their lives with the behavior of others.

This explains why we so often find institutionalists referring in one way or another to a rewon history or regained historical perspective. The actual social evolution of the economy has been falsely prefigured in the modern period by the predominance of the economistic fallacy. The point is usually made in the context of pre-market economies, especially those assigned to the economic anthropologist by the disciplinary division of labor. Cultural ethnocentrism limits the ability of modern social scientists to investigate the actual character of these social economies. The disembedded, autonomous economy of recent vintage is the foundation of the formalist, choice model of the economy. However, pre-capitalist economies were embedded in the social structure, largely anonymous, and without autonomous logic and laws of their own. Their vital properties are impenetrable to the formalist, ethnocentric approach.

The practical importance of this point emerges when it is recognized that this misinterpretation of past economies severely limits the ability of economists to *imagine* institutional alternatives in light of today's problems. The marketing presumption obscures the non-exchange organization of pre-capitalist economies. Unable to see the actual alternatives to the market in the past, economists are unable to foresee the possible alternatives to the market in the future.

This is even more important when it is recognized that the paramount problems in the current economic crisis involve the interaction of economy and society. The need is to examine the relation of lives to livelihood and subordinate the economy to the lives it properly should serve, this is to say, precisely to re-embed the economy in society! The economics of the market mentality cannot possibly come to grips with this problem because it is pre-eminently the logic of the disembedded economy (Stanfield, 1989).

The economic thought required in such a radical reconsideration of the place of economy in society must draw upon as wide a range of human experience as possible. A thorough and unprejudiced reconsideration of economic anthropology and history is mandated so as to permit a general understanding of the place of economy in society. This rewon history will then provide the best available basis for escaping the market mentality and imagining alternative futures. The promise of substantive and institutional analysis is to enable the open-minded investigation of the past as a prelude to the open-minded creation of the future.

DEMYSTIFICATION: THE TASK OF RADICAL ECONOMICS

As noted in Chapter 11, the fundamental task of radical economics is demystification. Human understanding of the economy, i.e. the social, material process of production and consumption, is confounded by the obfuscation and myth by which human beings inveterately endeavor to overcome the limitations of their knowledge. Mystification is born of ignorance and is vanquished only by the heightened consciousness made possible by increasing knowledge. Progressive demystification is the fount of social progress. Certainly nothing was more important to Marx's inveterate optimism about the future than the notion of progressive demystification. When Veblen's cynicism permitted a grain of optimism, he too stressed the habits of thought of a scientific, machine-based culture as a progressive force. As knowledge increases as a part of the general growth of the productive powers of humankind, myths of various kinds fall away. Marx's fundamental vision of the 'passionate possibilities' (Hunt and Schwartz, 1972, p. 33) of the future socialist society rests upon demystification. In his view, limited productive power is bound up with limited social relations and this is in turn reflected in the superstructure in the form of worship of nature, aristocratic divine right, etc. Such nonsense, the muck of ages, will 'only then finally vanish when the practical relations of every-day life offer to man none but perfectly intelligible and reasonable relations with regard to his fellow men and to nature' (Marx, 1967, vol. I, p. 79).

Presently, demystification must contend with the market mentality or culture which guides and controls behavior. Culture is to be understood here as a set of symbols which provide not only models of reality but, more significantly, models *for* the realistic conduct of life (Geertz, 1973). Human beings create cultural myths but these myths in turn shape human beings. I take this to have been Marx's (1967, vol. I, p. 621) point when he spoke of humanity being governed by the products of their brains and hands. After all, commodities are as much cultural symbols as religious ideas and fetishistic idolatry is not transformed by having concrete artifacts as its object or embodiment.

The market mentality began to take shape in the seventeenth century, especially in England (Appleby, 1978). The medieval way of life had been badly shaken by the growth of market forces, technological change, and shifting power relations. The divine right of the aristocracy and clergy was thereby undermined along with the cultural symbols of medieval society. After all, the aristocracy and clergy were the best people, i.e. they were the people who knew best the meaning of life and the value of anything and everything. With the shifting social reality toward the end of the Middle Ages, their position was badly shaken. Gradually, the heretical notion emerged of a commercial economy with its own momentum and laws of development. In mercantilist thinking in the 1620s, this idea began to achieve dominance. The closing section of Mun's *England's Treasure by Foreign Trade*, written around 1630 though not published until later, is remarkable for the notion of the self-regulating economy, a notion which is often surmised to be totally at odds with mercantilist doctrine. This view of the commercial economy implies, first, that the monarchy and the clergy can only to a limited extent control such an economy. Secondly, and this is the real heresy, it follows that the man on the spot with his individualistic calculations based on his limited knowledge is really in the best position to know the value of those things related to his trade or business. Hayek's (1945) celebration of the economy of knowledge does, indeed, center on a pivotal fact of market culture. The symbolic configuration of decentralization, the individual as the best judge of his or her own needs and wants, and the superiority of the human on the spot who is closest to the action and most effected by it, is a cornerstone of liberal philosophy.

Early on in mercantilist thought the momentum of the commercial economy and the progress it could sustain were viewed only in the international setting. Toward the end of the seventeenth century, however, the demonstration effect was discovered and with it the idea of economic progress in terms of the sustained development of a domestic economy itself. Here also arose the notion of consumer insatiability. The hallmark of the conceptualization of human needs prior to this time was that such needs were relatively limited and static. With the demonstration effect, however, human needs are viewed as infinitely expandable. With this goes the possibility of indefinite expansion of a domestic economy. An individual sees something that he wants, he works hard to get it, thereby expanding output. Other individuals see his success, have demonstrated for them the product that he is consuming, and redouble their own efforts. The economic ideology of the modern world, so forcefully expressed by Adam Smith and his intellectual descendants, was forged in the seventeenth century.

In the wake of the destruction of the traditional pattern of medieval culture and society, the divine hand was replaced by the invisible hand. The market mentality became the dominant cultural form and the nineteenth century experiment with a laissez-faire economy was more or less preordained. This is not to deny that market forces are in some sense real and very important. One way to have power in a society governed by the symbols of market culture is to have money, but such power is based upon the control over technology and social relations that wealth enables one to have. In reality, those with power make decisions and the market mentality has served to hide this reality of power. Such obfuscation of class rule was necessary after the Enlightenment because humanity thereafter refused to blindly obey authority.

The market mentality persists in the formalist orientation of mainstream economics. The fundamental symbolism of scarcity and more-is-better is interwoven with a catallactics world view. Self-interested calculation in a system of competitive exchange establishes an efficient set of relative prices which guides resource allocation and provides distributive incentives. These relative prices are taken to be expressions of society's values as constrained by limited resources. Such a view allows the values of the wealthy to masquerade as those of society in general. Such control allows class rule without the embarrassing, ideologically untenable visibility of class government.

Demystification requires a theory of value not conceived as explaining the determination of relative prices in the market, then interpreting their significance. In this respect, to the extent that the labor theory of value is a strategy for uncovering the meaning of relative prices so established, it too is mystification. I believe Marx (1967, vol. I, p. 74) said as much when he referred to the labor theory of value as 'the recent scientific discovery [that] . . . marks indeed an epic in the history of the development of the human race, but, by no means, dissipates the mist through which the social character of labor appears to us to be an objective character of the products themselves.'

Significantly, from the substantive point of view the relative prices and incomes established by the market are arbitrary, historical accidents. They are the result of myriad exercises of power to change technology, tastes, and social relations. The idea that prices and incomes are somehow supremely equilibrated into a meaningful set of relations is a metaphysical imputation not at all evident in the facts. This is not to deny that relative prices have meaning to individuals in the sense of the exclusion principle, that an individual cannot buy a product unless he is willing and able to pay for it. The point is rather that the myth of the market induces the individual to view this exclusion as involving somehow the working of inexorable natural law. The substantive view would urge an individual to see this exclusion as a result of the distribution of power in society. Social relations determine the relation between an individual's income and product prices. The market myth teaches the individual to neglect the social and power relations in the economy but the substantive conception brings home the 'social character of labor' and renders intelligible the 'practical relations' among men and to nature. In order to elaborate this theme more fully, I now turn to the standard of value embodied in the substantive conception.

THE SUBSTANTIVE VALUE STANDARD

The substantive view yields a fundamentally different value standard than the formalist view. The value standard of conventional economics is more-is-better. This follows logically from the conventional view's axiomatic scarcity. This axiology promotes the disembedded, calculative economy which disrupts lives and stunts individual development in the name of incentives, mobility, rationality, allocative adjustment, and in a word, efficiency. The formalist value standard promotes an econocentric or pecuniary culture in which all meaning is read from the process of market exchange. To take a notable example, Malthus reduced the vital human function of procreation to a question of market ability. He argued that no individual has a right to subsistence for himself or his children unless his labor will fairly purchase that subsistence in the open market. The vital social function of procreation and its control is thereby turned over to market desiderata.

Schumpeter made the point about econocentric culture with characteristic candor:

> Unlike the class of feudal lords, the commercial and industrial bourgeoisie rose by business success. Bourgeois society has been cast in a purely economic mold. Its foundations, beams and beacons are all made of economic material. The building faces toward the economic side of life. Prizes and

> penalties are measured in pecuniary terms. Going up and going down means making and losing money. This of course nobody can deny.
>
> (Schumpeter, 1962, p. 73.)

The clear implication of Schumpeter's point is that status is a function of pecuniary success. This is directly contrary to the pre-capitalist arrangement of traditional society in which social status, especially rank, sex, and age, determined economic function and privilege. The classical liberals, who speak most clearly the ethos of bourgeois culture, provide further evidence and support of Schumpeter's contention. It is an article of faith for them that the production of pecuniary values should be the primary basis of human success. It is especially important in this view that a young man looking to make his way in the world not look to the political process to make his fortune. He should pursue his fortune in the open market producing values that people are willing to pay for. It is a further article of belief for the conservative that the government should be run by those who have successful experience in business (Ward, 1979, chs 3, 4). Ricardo provides a prototypical model for this point of view. After having made his fortune as a stock jobber, Ricardo then turned to economic writing and became a member of the British Parliament.

In this respect, it is important to remember the concept of culture as a set of meaningful symbols that provide models for individual behavior. Bourgeois culture promotes Veblenian sharp practice, i.e. the attempt to get something for nothing. It promotes suspicion of spontaneity and volunteerism with the notion that the individual has scarce resources at his disposal and should therefore consider the likely reward for any effort he puts forth. The reduction of interpersonal relations to a cash nexus rather than a web of social and political obligations is also a symbol of this culture. Indeed, the culture's earliest expression seems to have been the Enlightenment's shift from status to voluntary contract as the basis for interpersonal obligations. The symbol *scarcity* is of course fundamental to bourgeois culture, along with the conviction that more-is-better. Efficiency and maximization are the primary concerns with respect to the disposal of any resources.

The quote from Schumpeter also adds credence to Veblen's

(1953) concept of invidious distinction. With status and prestige so bound up with pecuniary success, it becomes a matter of central importance to make that success as conspicuous as possible. Consumption becomes an end in itself as a process of displaying pecuniary worth or money-making efficiency, rather than being an instrument toward furthering the individual's life process. If it is true that consumer insatiability is the root of scarcity and invidious distinction the root of insatiability, this is very important indeed. (See Chapter 6.)

There is no objection to be raised to the logical proposition that, *ceteris paribus*, more-is-better. The proposition as such is a logical truism. The problem is that conventional economic analysis, part and parcel of the disembedded economy, has no basis for evaluating whether, in fact, other things are equal. Only a holistic conception can enable the investigation of economy and society in such a way as to ascertain if, in fact, other things are equal. What must be investigated is the effect on society, polity, and culture of an economy instituted with the expansion of commodity production as its *raison d'être* and paramount objective.

Consider Schumpeter's (1962, pp. 82–3) important concept of creative destruction: 'capitalism is by nature a form or method of economic change; . . . [it] incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.' The economic process regulated by market competition simultaneously creates and destroys. Given the more-is-better standard of value, the inclination is to accept the destruction as the cost of progress and efficiency. But the destruction of economic values and routines cannot be isolated from life in general. Economic destruction implies social disruption, especially so given that in the name of the self-regulating market, vital social functions have been left to the exchange contracts made between individuals.

Consider now the implications of the process of creative destruction for culture and society. With respect to culture, the incessant change makes it difficult for the individual to sustain an ordered model of the world and his place in it, i.e. to preserve those shared meanings or traditions to which human emotions are directed. Concrete cultural symbols such as historic buildings and childhood places incessantly vanish in the wake of progress. Eventually, the belief in change and the imperative of being up to date or the fear of being out of date become fundamental elements of capitalist culture. Capitalist culture seems to be constantly at war with the traditional values which persist in human culture. What children are taught about fair play, sharing, and interpersonal relations is violently in conflict with how they are expected to behave once they enter the world of business. A child is taught to share toys and reach amicable solutions to problems concerning what to play with those toys. It is bad form to threaten to take one's toys and go home, yet such behavior is the essence of market behavior in a capitalist economy. Capitalists routinely withhold the means of production if they do not like the bargain they can receive. Through unions, labor, in order to survive in a capitalist society, practises the same bargaining tactic of withholding the forces of production they control pending a better bargain. In economic theory, such is indeed the function of private property and exclusion: to enforce necessary supply price. Children are taught to do their share and cooperate to get work done. Workers learn on the job that shirking and working at a pace determined by historical norms is the way to get by. The result is a profound cultural ambivalence or cultural dissonance. It was a key insight of Marx that such contradictory meanings would frustrate the individual and prepare him for a radical shift of consciousness.

Consider the implications of creative destruction for society. The celebrated mobility of the factors of production in the case of labor necessitates a highly mobile and restricted family unit, the abrogation of friendships, and the restructuring of social relationships generally. In addition to the obvious, though unpriced and therefore neglected, costs of establishing a life pattern anew, this creates a tendency toward shallow friendships and makes it virtually impossible to develop a stable working class community. Yet market success requires mobility and such success is the supreme value of capitalist culture. Efficient money-making is also the justification for alienated labor. It is the superior goal of production and efficiency that legitimates work that is onerous, boring, and even dangerous, as well as the necessity of an external, hierarchical control of the labor process. The examples could be indefinitely expanded.

Economic progress, i.e. efficient money-making, routinely condones the destruction of historical buildings, wildlife habitats, labor skills, small businesses, the economic bases of towns and cities, and so on.

As discussed in Chapter 8, the substantive value standard is social reproduction and the fuller unfolding of the human life process. Social reproduction means society is reproduced as a going concern. This requires reproduction of its vital occupations and economic functions. Since social change is ever present, this also requires adjustment in the process of this reproduction. Power and coercion are necessary in this view because it is necessary that individuals achieve that minimal cooperation consistent with social reproduction. Sufficiency more than efficiency is the hallmark of this value standard with its characteristic focus on the problem of lives and livelihood. Livelihood means the economic process of provisioning. What must be asked of this livelihood is that it reproduce lives without disrupting them and retarding the development of individuals. The acceptance of social disruption and stunted individual development in the name of efficiency is patently absurd from this point of view. Such acceptance in effect promotes the means above the ends. In the name of getting as much of the means as possible, the sacrifice is made of the very ends to which those means are to be directed. This implies that distribution is an essential part of economic effectiveness, no more nor less subjective than other considerations. The goal of provisioning cannot be sacrificed to producing the means of doing so. Maldistribution of income *vis-à-vis* the sufficiency criterion would mean that the economic process is failing its instrumental function of reproduction.

The implications of this view for everyday life are that first of all the economy is seen as a means to an end, the end being provisioning the lives of individuals. For households, income and consumption are then properly viewed as tools used in the furtherance of the life process of the individuals in the household. This does not reduce consumption to subsistence in a narrow sense. The implications of the cultural analysis of consumption are decidedly contrary to any naturalistic standard of value and consumption norms. Consumption as a cultural process is not well understood in terms of physiological requirements or given wants. This does not deny the physiological function of consumption but insists that since this is a universal function it is not very helpful in comparative institutional analysis. Instead cultural analysis suggests a communication theory approach in which consumption is viewed as symbolic interaction (Douglas and Isherwood, 1979). Consumption provides first of all a marking service. The way we dress, the automobiles we drive, the houses we live in, the food we eat, and the places we vacation are one and the same with primitives painting stripes on their faces and wearing shell or bone necklaces. In both cases individuals are marking themselves as belonging to this or that group or status within the group. In addition to group identification these marking services are important in the individual's achievement of personal identification. Human self-realization is achieved through the social, material process that includes consumption as well as production, as those terms are normally (mis)used. Consumption is a process of seeking and conveying meaning, literally participating in culture.

This complicates but in no way obviates the importance of Veblen's concept of invidious distinction by which income and consumption become ends in themselves as evidentiary of superior social status. The differentiation of instrumental and invidious is to some extent subjective since it must treat the cultural context of meaning involved. It remains as well to some extent a matter of individual judgment. This does not render the concept nebulous, only human. The individual is ethically responsible for examining the meanings he accepts and portrays in consumption. The economic scientist must investigate these meanings and their consequences for the economic function of provisioning. Invidiousness obstructs the economic function by subverting the instrumental character of the economy and perverting the development standard of individual activity.

For the business firm, carrying on economic activity becomes less a matter of profit maximization and more a matter of generating sufficient revenue to remain a going concern. As Charles Dickens attempted to demonstrate in his fiction, business should not run for profit *per se* but in the service of a way of life. As John Ruskin noted, business also participates in making culture by the tastes and values its products and organization promotes or creates. That this is so much more true of the modern corporation has led to a half-century's discussion of its social, political, and cultural influences and responsibilities.

For the state, this value standard makes sense of a great deal of state intervention that is otherwise inexplicable or suspect. The state is involved in a wide range of activities to stabilize the economy, provide social security, protect income, and so on. The state has also become an important instrument of adjustment. Manpower development and training, provision of economic opportunity, targeted investment subsidies, and so on are a part of the complement of state activities aimed at achieving adjustment in the continuous process of provisioning.

Their fundamentally different conception of the economic process accounts for the substantivists's pronounced visibility in the advocative vanguard for price and income policies. From the mainstream view, relative prices established in the market are integrally related to value. The market model with its penchant for marginal niceties predisposes the conventional economist to think in terms of an equilibrium position in which relative prices reflect relative values and provide accurate allocative guidance as well as necessary distributive incentives. Intervention by the state in relative prices or income flows is viewed askance because it introduces an arbitrary (read non-market) element into these all-important market relations. Surely allocative and distributive distortions must follow that are fundamentally counter to the gospel of efficiency.

From the instrumental value standard, price relations and income flows are merely convenient devices of accounting and information. They are largely arbitrary, reflecting myriad historical variables. Their instrumental function is to facilitate the reproduction of businesses, households, and farms. Where an income flow is inadequate to this function, the substantivist would use the polity to raise it temporarily and provide assistance toward long-term transition and adjustment. The myth that the market can be structurally self-adjusting via automatically shifting incentives has grown progressively less plausible and more dangerous. The shifting sands of technology, power, tastes, demography, etc. belie the general equilibrium conception of the economic process. This is not to deny the usefulness of economic incentives, only to argue that their proper structuring cannot be left to the automatic market. One need not be blind to incentive arguments in order to avoid being blinded by them.

This income maintenance focus is based not upon a concern for equity but rather upon the need to stabilize the process of social reproduction. For the income flow to serve its instrumental function, it must be balanced. Shortfalls in one sector will multiply through the economy, destabilizing other sectors. Critics of corporate bailouts or pump-priming make-work programs usually have an idealized market standard of justice in mind rather than the pragmatic notion of balance in the process of social reproduction.

The substantive conception of the economic process also leads to resistance to the doctrine of vigorous trust-busting. The antitrust strategy is a market concoction which has always paved the way for abdication in the face of power rather than its effective control. An alternative predilection is to allow, or recognize the inevitability of, concentration, then to control it politically. Concentrated power is more visible and easier to manage in the interest of economic balance than dispersed power. The arbitrary character of prices and incomes resulting from dispersed power is more difficult to shape toward the reproductive economic function than those from concentrated power.

In summary, the contemporary crises in the social economy and economic thought mandate a fundamental reconsideration of the meaning, place, and function of human economy in society. Substantive institutional analysis provides a basis for this new departure. It offers an alternative definition of the economy, an alternative method for economic enquiry, and an alternative standard of value to vest that enquiry with human meaning. Its premise and promise is that learning from the past can enable demystification of the present, thereby paving the way for the creation of a desired future.

13 Veblenian and Neo-Marxian Perspectives on the Cultural Crisis of Late Capitalism[1]

Sales-publicity . . . is a trading on that range of human infirmities which blossom in devout observances and bear fruit in the psychopathic wards.

T.B. Veblen, 1923.

If we confine attention to the inner dynamics of advanced monopoly capitalism, . . . the logical outcome would be the spread of increasingly severe psychic disorders leading to the impairment and eventual breakdown of the system's ability to function even on its own terms.

P.A. Baran and P.M. Sweezy, 1966.

This chapter seeks to draw attention to the psychocultural consequences of the systemic late capitalist response to economic crises and to the need for a research agenda to delineate and evaluate these consequences. The work of Veblen and recent American neo-Marxists is suggested as the basis for a start toward developing this research agenda. I use the term neo-Marxism loosely to encompass a variety of scholars who share a common point of departure in Marx's social theory, but insist that Marx's categories do not capture the essential tendencies of existing capitalism and socialism (Brown, 1988, p. 9).

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VEBLEN AND THE INSTITUTIONALISTS

Veblen's crisis theory is an elaboration of his fundamental dichotomy between the non-invidious and invidious economic interest (Veblen, 1953, p. 143). This involves the critically important conception of *Veblenian waste* (McCormick, 1986), which implicitly lays the foundation for a reasonably independent standard of value. Veblenian waste is any expenditure of a scarce resource that serves to maintain an invidious distinction, i.e. a comparison made to establish rank or 'relative worth' (Veblen, 1953, p. 40). Conversely, an expenditure is serviceable if it enhances:

> ... human life on the whole ... the life process taken impersonally. For this is the basis of the award of the instinct of workmanship, and that instinct is the court of final appeal in any question of economic truth or adequacy.
>
> (Veblen, 1953, p. 79.)

The instinct of workmanship is Veblen's expression of the innate teleological or purposive tendency of human activity. It has to do with the 'efficient use of the means at hand and adequate management of the resources available for the purposes of life' (Veblen, 1964, p. 31).

This is very relevant to Veblen's views on the labor process. Veblen saw no reason for manual, productive labor to be inherently undesirable. In fact, given the coupling of the instinct of workmanship and the parental bent, such productive activity should be inherently satisfying. Virtually the whole of *The Theory of the Leisure Class* can be read as an answer to the question *Why is labor irksome?* Veblen (1953, pp. 27–32) accounts for the irksomeness of labor on grounds of 'temperament' or 'spiritual difference'. In the predatory phase of human society, everything since peaceable savagery (what Marx called primitive communism), useful labor is irksome because of the indignity attached to it. Therefore, the inherent human proclivity toward productive activity is frustrated and perverted by the predatory culture in all stages of human society except that of the peaceable savage where invidious distinction is either absent or drawn in terms of industrial serviceability.

Clearly in all of this, despite his frequent protestations to the contrary, Veblen is applying some higher, transcendent standard of judgment than the everyday conventional sensibilities. This standard is found in his frequent if all too brief discussions of the 'fuller unfolding' of the human life process. This standard of generic human serviceability or instrumental validity has been extensively elaborated by Ayres, who combined Veblen's suggestive insights with those of Dewey. Ayres (1961) established the process of democracy and the values of freedom, equality, abundance, excellence, and security as the universal criteria of technological or instrumental validity.

Veblen divided his crisis theory into at least three periods. Prior to the late nineteenth century, crises were primarily speculative financial corrections that did not affect the whole economy because mechanization and the financial basis of the economy had not yet rendered a thoroughgoing interdependence (Veblen, n.d., pp. 117–18). Since the 1870s, the period of 'protracted' or 'chronic depression', underconsumption or overproduction was apparently seen by Veblen as being the main problem. Significantly, because of its similarity to the argument in *Monopoly Capital*, he argued that in this period 'chronic depression has been the rule rather than the exception' and that prosperity interrupts the chronic tendency to depression only when 'specific causes extraneous to the process of industrial business proper' arise (Veblen, n.d., p. 120).

Veblen argued that inadequate effective demand created a systematic tendency for capitalized values to exceed realizable earnings of corporate operations. The business class resists the downward correction of values to reflect actual earnings capacity because its status and emotional well-being are based on these capitalized values (Veblen, n.d., p. 114; Phillips, 1988). In this resistance lies the systematic tendency of monopoly capitalism, indeed its pathology.

Veblen noted that the problem in principle could be addressed by government intervention to redistribute income to the common man or to construct useful public works. Like Marx before him and Baran and Sweezy six decades later, he was not optimistic in this regard because the state tended to operate within the confines of business culture and to be constrained by the pecuniary interest of the vested interests. The recent interest among its younger generation in 'the involuntary society,' 'ceremonial encapsulation,' and 'corporate cultural hegemony' suggests that institutionalism is finally catching up with Veblen and the Marxists in this regard. (See Chapters 4 and 5; Dugger, 1984, ch. 4 and 1989b; and Waller, 1987.) Close scrutiny of Veblen (n.d., p. 13; 1967, pp. 405–32) indicates that he was in agreement with Marx's dictum that the capitalist state operates as an executive arm of the ruling class.

Instead then of a progressive response to the problem of overproduction and underconsumption, Veblen expected the system to respond by waste and obstruction of productive potential. At various places (1963, pp. 112ff; n.d., pp. 32–4; 1967, ch. 11) he discussed salesmanship expenditures, such as advertising, profusion of retail outlets, and superfluous packaging and design practices as well as the production of 'superfluities and spurious goods.' The obstruction and sabotage of production would also lead to persistent unemployment of labor and productive equipment; here Veblen (1963, p. 45; 1967, pp. 420–1; n.d., p. 97) had in mind the cornering of markets, the lack of coordination among the various industrial lines as well as the slack associated with underconsumption or overproduction. Part of the destruction and dislocation also falls to labor as unions practice business-like supply management (Veblen, 1967, p. 402).

The state assists in the obstruction not only with protective tariffs (Veblen, 1963, p. 49) but also with a far-flung military and imperialist operation that seeks to maintain profitable opportunities for business overseas. In this regard, Veblen commented that the traditional maxim 'trade follows the flag' is erroneous and 'probably inverts the actual sequence of facts' (Veblen, n.d., p. 139).

The pathology of monopoly capitalism does not end with the waste of productive potential; Veblen foresaw serious cultural and psychological consequences as well. He (1963, p. 128) noted that much unnecessary insecurity and deprivation would continue to exist under the business system. Advertising plays upon and reinforces the crippled psyches in monopoly capitalist society (Veblen, 1967, pp. 307–12). Veblen was never more serious nor more in touch with the fundamental reality of late capitalism than when he wrote the paragraph that ends with the sentence I used as the epigraph for this chapter (Veblen, 1967, pp. 306–7n). The seriousness of this can be brought out by considering the content and extent of advertising currently. Billions of dollars worth of resources are devoted to creative cultural expression intended to convince people that they look wrong, talk wrong, smell wrong, or in some other way fall short of what they ought to be in order to achieve social acceptance or economic success. This cannot help but create and reinforce psychological misery and insecurity. *Simply imagine the change in the quality of life if these resources were devoted to communication designed to enhance self-esteem and family nurturance and induce greater community involvement and ecological awareness.*

The regime of predation and pecuniary calculation, based on the institution of ownership, also distorts the instinct of workmanship as insatiable pecuniary emulation permeates the cultural sense of achievement (Veblen, 1953, p. 39; 1964, p. 174). Veblen (1953, p. 39) thus spoke of the 'chronic dissatisfaction' of pecuniary society. It is important to note the perverse dynamic at work here. As Hunt (1979, p. 136) has observed, the chronic dissatisfaction seems to be 'irremediable because the workers' response to the misery furthers and perpetuates the misery.' The effort to overcome this 'chronic dissatisfaction' by acquisition of more commodities is the vicious circle referred to in Chapter 6 as the *treadmill syndrome.*

RECENT US MARXIST ECONOMICS

US Marxist economists, heavily influenced by the seminal works of Baran and Sweezy (Sweezy, 1968; Baran, 1957; Baran and Sweezy, 1966), have focused on the crisis tendencies within monopoly capitalism and their implications (Bowles, Gordon, and Weisskopf, 1983; Foster and Szlajfer, 1984; Foster, 1986). Structurally, monopoly capitalism is characterized by growing monopolies within industries, internationalization of capital and the division of labor, and extensive state intervention (Braverman, 1974, p. 252). As foreseen by Marx, the first two of these grow out of the process of capitalist competition. Competition implies winners whose control of capital enlarges and losers whose capital diminishes. The competition among capitals leads to socialization and internationalization of capital and labor as the scale and technology of production develop (Marx, 1967, pp. 322–68, 761–74). The increasing role of the state emanates from the attempt to manage the contradictions, i.e. to ameliorate the pathology of late capitalism (O'Connor, 1973, 1984).

Center stage in Baran and Sweezy's classic is occupied by the surplus absorption problem and the systemic response it engenders. Under monopoly capitalist conditions, both the economic surplus and the investment-seeking portion thereof are said to rise. The system responds with intensification of the sales effort, rising state expenditures and regulation, militarism and imperialism, and the waste of unemployment in a slack economy. The discussion of the ideological and structural limits to social spending by government is very similar to Veblen. Similar also is the overall conclusion 'that the *normal* state of the monopoly capitalist economy is stagnation' (Baran and Sweezy, 1966, p. 108).

In a most important chapter, Baran and Sweezy (1966, ch. 11) indict monopoly capitalism as the 'irrational system'. Here no doubt Baran's Frankfurt School background comes through in the focus on the cultural repression and psychological misery of monopoly capitalism. The fundamental irrationality is described with Veblenian overtones as a 'formula for maintaining scarcity in the midst of potential plenty' (Baran and Sweezy, 1966, p. 337). The repression and exploitation of capitalist institutions are obsolete, having performed their 'historical mission' by sustaining the 'work discipline and self-denial which . . . made possible the massive accumulation of capital and with it the building up of an enormously productive industrial apparatus' (Baran and Sweezy, 1966, p. 352). In the ensuing 'ideological wasteland', a profound cultural crisis emerges in the material process of work and consumption. Significantly, the cause of this malaise is Veblenian invidious distinction (Baran and Sweezy, 1966, pp. 345–6). As a result, society's 'psychic police force' is eroded and social control of individual behavior becomes very problematic.

Baran and Sweezy are clearly applying a higher standard of rationality in discussing the irrationality of monopoly capitalism (Foster, 1986, pp. 45–50). This higher standard is that of a rational or reasonable socialist order in which production and distribution would be managed with an eye to efficient generation of use values. Baran (1969, pp. 36–7) spoke of a 'confrontation of reality with reason' in order to expose 'the irrationality of the existing social order' in which the general interest is subordinated to the particular interests of the few. He also insisted that the irrationality of popular tastes would be rendered more reasonable in such an order and insisted that bourgeois psychoanalysis, although useful, suffered limitations because of its refusal to recognize the 'painful but ineluctable truth that the limits to the cure of man's soul are set by the illness of the society in which he lives' (Baran, 1969, p. 111). In this regard, Marx's (1967, pp. 79–80) powerful vision of demystification in the more reasonable society, which I quoted in the epigraph to Chapter 11, is irresistible.

Recent US Marxist economic analysis, reflecting the influence of Braverman and the interest in the labor process among the New Left, reduces somewhat the emphasis on the surplus absorption problem. A fundamental insight of Marx (1967, pp. 628–48), that capitalism requires unemployment and deprivation to ensure the profitable workings of its labor markets, had been reintroduced into US Marxism by this time (Kalecki, 1943). Hence, it is not simply that capitalism contains an underconsumptionist tendency to unemployment, but rather that the system requires unemployment, the elimination of which tends to threaten profit-rate squeeze and declining class discipline over labor. In other words, if the tendency toward insufficient aggregate demand is met by state intervention and increased union power to increase mass consumption, a profit-rate crisis is likely to ensue. The production cutbacks and layoffs, along with ideological and structural reaction against the increased mass consumption, will restore profitability and the underconsumption tendency. *This in effect introduces a strong structural explanation of underconsumption since capitalist labor markets are inconsistent with a full employment economy.*

The recent US Marxist analysis of late capitalist economic crisis involves the complex interaction of ideology and structural tendencies in distribution, industrial relations, and state intervention within the context of international political economic relations. Along these lines, O'Connor's study (1984) provides the long-term view necessary to understanding the crisis-dependency of capitalism. O'Connor (1984, p. 55) points out that historically the resolution of one crisis has 'constituted the beginnings not only of subsequent economic expansions, but also of succeeding crises' because the '"solutions" to past crises become "problems" during succeeding ones.' Specifically, O'Connor argues that the state-assisted success of economistic or lunch-pail unionism, a response to the pre-Second World War underconsumption or overproduction crisis, eventually led to a capital underproduction (or capital shortage) crisis. O'Connor analyzes union success in wages, work hours, work intensity, and social welfare state policy and the growth of consumer and state debt and finds evidence of a 1970s crisis of underproduction of capital.

Setting aside the validity of the capital shortage argument, O'Connor's analysis of the post-Second World War changes is of direct interest herein. The incessant structural urge of capitalism toward technical innovation and recomposition of capital and labor (Braverman, 1974, pp. 8–9; Schumpeter, 1962, ch. 7) is said to have taken on new forms. A host of activities, even industries, arose in marketing, product development, and finance that were designed to recompense and secure adequate levels of consumer demand. Such 'realization labor' and 'circulation labor' become 'socially necessary costs under modern capitalist conditions of production' (O'Connor, 1984, p. 87) whether they show up empirically as business costs of production or as household expenditures. These activities operate to facilitate consumption and they add a large surcharge onto the cost of doing business and living in late capitalism. Such costs and the frustration they underwrite are very reminiscent of Veblen, and the Veblenian dichotomy is brought to mind by O'Connor's (1984, p. 107) discussion of the subordination of the material process of producing use values to the valorization process of producing exchange values.

O'Connor's analysis suggests that the trends set in motion to counter the 1930s crisis strengthened the economic and political rights of the masses. The state undertook responsibilities in industrial relations, income support, socioeconomic regulation, and macroeconomic management. A fundamental alteration in consciousness was afoot and it was not friendly to the demands of capitalist accumulation. Indeed, one strand of this consciousness, the consumeristic right to *more*, is unfriendly to any demands that detract from the narcissistic rat race of invidious distinction. Consumer and state debt began to compete on a large scale with business debt – admittedly much of the latter deserved to be crowded out in that it would have been no less an exercise in invidious display and waste than the spending of consumers and government (Stanfield, 1983b, pp. 601–4). Another strand of this new consciousness resisted corporate hegemony and pressed for environmental protection, affirmative action, community control, and myriad other issues.

O'Connor closes with a discussion of the emergent responses to this manifold social crisis. The prevalent response since the late 1970s has been the corporatist/statist model. This model diagnoses the crisis in terms of too much government spending and regulation, too little individual initiative and self-discipline, and too little US international clout. In terms that bring to mind Dugger's (1984) castigation of economic retrenchment, O'Connor (1984, p. 239) describes this model as requiring 'a renewal of capitalist accumulation [by] sharp reductions of the costs of economic and social reproduction and increases in the rate of exploitation.' To this all-too-familiar compendium of nativistic reactions, O'Connor juxtaposes a popular, participative model composed of a less integrated and less visible assortment of defenders of government assistance to the needy, the peace movement, and those stressing local action and control in the halls of government and other places of work and living.

Of particular present concern are the values underlying O'Connor's populist democratic alternative. He stresses community/solidarity, democratic participation, equality, and innovativeness/action. In the tradition of Marx and Veblen, he strongly emphasizes demystification of the social process of material reproduction: 'the populist model makes the division of labor more transparent' (O'Connor, 1984, p. 239). Finally, and most importantly in the present context, his vision of the desired alternative suggests Veblenian-Ayresian knowing and doing: the populist model 'frees individuals for the dream that we are what we socially, morally, and imaginatively *conceive and do*' (O'Connor, 1984, p. 249, emphasis added).

Institutionalized waste and the need for institutional adjustment comprise the central theme of Bowles, Gordon, and Weisskopf (1983, pp. 9–10) who discuss demand-side and supply-side waste. The former refers to the operation of a slack economy because of the lack of coordination among industries and the nature of capitalist labor markets. The latter refers to inefficient resource allocation that 'results from the imperatives of maintaining a system of private corporate power.' The point, of course, is the familiar one that Marxists and institutionalists have retained from the classical theories of value: it is important to distinguish costs of production that are technically necessary from those that are solely of institutional necessity.

Since so much of costs of production are required solely because of the attempt to maintain US corporate hegemony at home and abroad, the authors scathingly reject the 'zero sum illusion' that revived economic growth would require a reduction in consumption to permit an increase in investment. By reclaiming the waste land and improving resource utilization, they argue that consumption and investment can simultaneously increase.

The institutionalized waste stems from the systemic attempt to maintain the faltering 'postwar corporate system' that prospered until the mid-1960s. This system was based on the international hegemony of the United States that was maintained through the financial system established at Bretton Woods, military and intelligence operations in support of business interests abroad, and a favorable pattern of the international terms of trade. It was also based on a capital–labor social contract whereby unions eschewed interest in control or fundamental change. The third basis of the post-war corporate system was an increase in the role of the state to moderate macroeconomic instability, provide a degree of security, and support business interests in general.

Each of these institutional clusters was subsequently undermined by domestic and international political economic change. The erosion of the post-war corporate system led to stagflation. Stimulative macroeconomic policy on top of an investment boom led to low unemployment and eroding labor discipline that eventually created a profit-rate crisis after 1966. Amid increasingly confrontational industrial relations, Nixon's corrective recession was shortlived for electoral reasons. The result was that macroeconomic policy was of no help in restraining labor. In the 1970s corporations increased surveillance of labor and increasingly resorted to union-busting tactics. Macroeconomic policy after 1973 became restrictive, which in time, especially with a further dose of restriction from Reagan and Volcker, decreased labor's demands (see also Clarke, 1989 and Stanfield, 1990).

In essence, the authors explain stagflation by a political stalemate in which the polity is unable to repress income claims to output, a factor that became increasingly troublesome with the dwindling rate of growth. This explanation should be familiar to readers of Polanyi's (1957, chs. 20, 21; Stanfield, 1986, pp. 144–50) explanation of the collapse of European economies in the 1920s and the concomitant rise of fascism. After 1979 the authors find a period of 'business ascendancy' based on the conventional wisdom of capital shortage and an attempt to break the political stalemate by restraint of unions and popular rights movements, decreased business and upper income group taxes, reduced social spending, and remilitarization. The logic of all this is, unfortunately, all to familiar: the consumption of the many must be reduced in order that the few can save and invest.

Bowles, Gordon, and Weisskopf offer 'a democratic alternative to economic decline.' Their twenty-four point 'Economic Bill of Rights' is based on six basic normative principles or 'popular priorities: democracy, security, equality, community, efficiency, and liberty.' Their detailed program suggests the ways and means to better serve these priorities by redistributing power through a sustained mobilization of the popular will. Of particular interest presently is the remarkable similarity of the authors' six 'popular priorities' to the instrumental values of Ayres (1961) who lists freedom, equality, security, abundance, and excellence as the basic values and adds the process of democracy as the means for achieving them. Assuming efficiency and abundance to be synonymous, the only significant difference is Ayres' omission of community and the others' omission of excellence. On the one hand, given the Marxist tradition of *praxis*, I am certain that Bowles, Gordon, and Weisskopf would not object to the addition of achievement or excellence to their list. Even if one challenged excellence as a populist priority empirically, one would likely agree it ought to be a popular value. On the other hand, those in the Ayresian tradition have explicitly cited community, as for example in Tool's (1979, p. 293) often-quoted clarion call of neoinstitutionalism (see also Swaney, 1981).

Incidentally, since Ayres (1961, p. 9) claims universal, transcultural validity for the instrumental values and since Marx (with Engels, 1970, p. 56) alluded to the proletariat as a universal class pressing forth a genuine general interest, it is interesting to note the similarity of Ayres's list of values and that of Bowles, Gordon, and Weisskopf, not only to each other but to yet a third such list from a relatively independent source. In their spirited defense of the welfare state, Furniss and Tilton (1977, p. 28) cite the following as the 'values of the welfare state': 'equality, freedom, democracy, solidarity, security, and economic efficiency.' Solidarity being virtually synonymous with community, this list is identical to that of *Beyond the Waste Land.* The absence of achievement or excellence once again is troubling and suggests a serious problem in the popular consciousness of the welfare state (see Chapter 9 above). Nonetheless, the overall similarity in this regard is striking and significant.

In sum, recent US Marxist economic analysis depicts contemporary capitalist crises as crises of stagnation, waste, and psychocultural malaise. Institutional adjustment guided by genuine human values is needed to render the economy effective in its fundamental task of securing social reproduction and advancing human welfare by calling upon and utilizing the best that people have to offer. Such an adjustment is necessarily a fundamental redistribution of power and is accordingly resisted by the powerful and obscured by the illusions they cherish.

The similarity of this analysis to institutionalism in general and to Ayres's wartime prolegomenon to an institutional crossroads is very striking. Ayres sketched a strategy for progress based on publicity and public regulation to secure public accountability of corporate power, income redistribution to balance purchasing power with potential output in order to keep the machines running fully, and a world New Deal to redistribute income, wealth, and political power. He acknowledged the obstacles posed to this strategy by Veblen's (n.d., pp. 137–43) nemeses, dynastic politics and patriotism and private property and its natural rights mythology, but he was optimistic, noting that 'the present war is a bid for empire, or even world dominance, made at a time when empires are already obsolete and the idea of dominance is fast giving way to the idea of unity and common interest' (Ayres, 1962, p. 229). Sadly, the post-war industrial democracies 'chose' instead to recognize only the unity and common interest of the few. The strategy was cold war to contain the Second World and maintain the dominance of the First World over the Third World. We now know that this strategy worked for some time for the powerful few, but it has now collapsed in a crisis of stagflation, financial fragility, and popular malcontent.

THE HIGHER EFFICIENCY AND THE COMMON RESEARCH AGENDA

The similarity of the Marxist and Veblenian analyses of the pathological response to late capitalist economic crises emerges from the fact that Veblen and the Marxists share a similar view of human ontology. Both conceive the human being as a being that is actively becoming by knowing and doing. For both human progress consists in the development of this fundamental nature. The conception of human essence common to Marx and Veblen consists in teleological activity or purposive action. It is important to recall the conscious teleological character of Veblen's instinct of workmanship, indeed of all Veblen's instincts. 'Instinct . . . involves consciousness and adaptation to an end aimed at' and 'all instinctive action is teleological. It involves holding to a purpose' (Veblen, 1964, pp. 4, 31; see also Edgell, 1975, p. 269). For Marx as well conscious, purposive action was an integral part of human nature. 'At the end of every labour-process, we get a result that already existed in the imagination of the labourer at its commencement' (Marx, 1967, pp. 177–8; see also Hunt, 1979, p. 115).

For Marx and Veblen then, productive, technological activity is the central fact of human ontology. For both as well, this activity is fundamentally social: only society produces and part of what it produces is the individual. Veblen (1969, pp. 37, 51–7, 67, 116) spoke often of 'the community's joint stock of technological knowledge' or 'the accumulated technological wisdom of the community' or again of 'the state of the industrial arts (as being) always a joint stock of knowledge and proficiency.' Marx (1964, p. 137) is even more definite on the question of humanity's fundamental sociality. The foundation of this ontology is language and objective consciousness (Marx and Engels, 1970, p. 51) because these permit the self-analysis of the natural system of which humanity is a part as well as of the social system. Moreover, of course, the transmission of the common technological heritage requires the culture for which language is the cornerstone.

Incidentally, this fundamental sociality of production is the reason institutionalists have criticized Marx*ist* distributive theories of exploitation. If production is social and the result of the common technological heritage, then no one group can be said to be exploited simply because of extant valorization practices nor can equity turn on productive merit. In light of the famous dictum on distribution according to need as well as the theory of alienation, I believe Marx's concept of exploitation should be interpreted as objectification or denial of subjectivity. At any rate, all of this should be carefully compared to Veblen on exploit and the free income of the vested interests. There may be a viable meritocratic principle here but I suspect it would turn on the individual's participation in necessary labor rather than on how much (s)he receives for doing so. There is another, less encouraging aspect of human ontology because culture transmits not only science and technology but also myth and habit, even the individualistic illusion that neglects the fundamental sociality of production. In this regard, concerning the instincts to workmanship, parenting, and idle curiosity, Hickerson (1987, p. 1127) remarks that Veblen:

> viewed [these] as contributing to the progressive evolutionary development of human societies. These elements of our behavior add to the fullness of life and the continuity of culture and are, therefore, to be encouraged. In clear contradistinction to these proclivities, however, are those that threaten to obstruct and perhaps even destroy that continuity.

Human culture inevitably, it seems, is a bifold struggle between progressive and inertial tendencies, between practical or instrumental progress and the obstacles or fetters (as Marx was inclined to say) to that progress.

From this ontological struggle there emerges a higher standard of rationality or efficiency – higher, that is, than the neoclassical efficiency which takes preferences and capacities as given. Marxists and institutionalists insist that the commonsense popular subjectivity is often illusory and subject to the hegemonic influence of powerful vested interests. After referring to 'power and the higher efficiency' in his subtitle, Klein (1987, p. 1369) comments:

> Institutionalists have a more complex standard by which to judge economic performance than the narrow allocative efficiency of mainstream economists. Recognizing that wants are not 'given', but emerge in the process of the dynamic interaction that characterizes activity in a modern industrial economy, and recognizing that the values that emerge in this interactive process are part and parcel of the emergent value structure of the larger society, institutionalists must confront this value system.

In other words, as Gruchy (1967, p. 552) noted, for institutionalists the scheme of values or preferences must itself be taken as one of the variables in the analysis as must the resources and the flow of real income. This contrasts with mainstream economics where the resources, and therefore the technology that defines resources, and the scheme of values and preferences, and therefore the institutionalized distribution of power that structures values and preferences, tends to be taken as given.

Recent US Marxist economists lay similar stress on this higher efficiency and the issue of power and variable preferences. Baran once commented concerning mainstream economics: 'Its fatal shortcoming is that it does not incorporate in its knowledge the understanding of what is necessary for the attainment of a better, more rational economic order' (quoted by John O'Neill in Baran, 1969, p. xxvi). In his analysis of the theory of monopoly capitalism, Foster (1986, p. 33) notes that the Baran and Sweezy approach 'represents a critique of present-day capitalist reality, not only in terms of the system's internal logic, but also in terms of the higher, external logic of the rationally planned society.' This same standard is at work in the critical theory of consumption. With respect to Baran's analysis of waste and potential output, O'Neill observes that:

> there is implied some standard of adequate, essential, and proper use of... resources... It is here that the Marxian social scientist encounters a combination of value relativism

> and value agnosticism which separates him from bourgeois social scientists . . . [who] overlook the facts of molded choice and ignore the essential question, namely, the nature of the social and economic order which molds individual preferences.
>
> (O'Neill in Baran, 1969, pp. xx–xxi.)

In sum, Marx, Veblen, and their respective intellectual heirs share a conception of the essential human being and therefore a common standard of human progress. This accounts for the similarity of the value premises discussed above. The fuller unfolding of the human life process, involving the fuller and freer development of all individuals in the social process of creation and production, is progress. Progress is enhanced fullness of life, it is achieved by struggle to overcome the inertial, interest-contaminated resistance of the status quo.

Finally then, a common research agenda emerges. Contemporary Marxists and institutionalists should be bent on identifying the psychocultural pathology of late capitalism by exposing the cultural hegemony by which corporate and other large vested interests dominate the mentality of social life and the misery that this domination either causes or inhibits the eradication of. To do so the focus of Marxists and institutionalists will necessarily become more cultural and more psychological. The struggle against corporate hegemony and invidious encapsulation of technological possibilities requires a strategy of *demystification* which must incorporate a sociology of knowledge, culture, and personality. Marxists and institutionalists must elaborate their higher standard of efficiency or rationality within the context of the psychocultural experience. Identification of human misery and the joy that could replace that misery in a more reasonably ordered society must deal with the personality of the individual and the cultural context of interpersonal meaning (Diedrich, 1983; Brown, 1985; Benton, 1987; and Chapter 6 above). The joy that can be obtained through self-authentic choosing, governance, cooperation, and creativity must be demonstrated and presented as a challenge to the misery and shortsightedness of the status quo theory of human nature and potential. Only in that way can the paralytic ideological fixation of the market mentality be overcome so that the task of *imagining* alternative futures can commence.

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