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Views on the Scope and Method of Economics*

By A. B. Wolfe

Generally speaking, it is a brave man who will permit his old essays and addresses to be dug out of journal files and republished in book form, with conventional dust jacket and blurb. Bound to seem trite to the reader who profited by them on their original publication, to younger readers who now come upon them for the first time they are likely to seem exercises in intellectual antiquarianism—naive voices out of a past now gone and vicariously relived only with effort.[1] Nevertheless these collections should be welcomed. They may contain much that is of no current significance, but they also make available some contributions of permanent, even classic, value, which would otherwise be lost. Currently and in after-years the collected essays of any well-known economist will be valuable to the student of the history of economic thought, both as documentary data on the economist's own attitudes and development and as evidences of the intellectual and social interests of his time. This will be especially true in the case of those economists, now apparently increasing in number, who produce few books (and those mainly monographic) and no systematic general treatises.

Mitchell is among this number. Amid all his varied activities he has from the beginning of his career devoted his main energies to research and the direction of research, and has published his major

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[1] These remarks apply in only limited degree to Mitchell's essays. Only five of those reprinted in this collection are of prewar date, and only five more date from the predepression 1920's. The remaining seven were published in the 1930's, two as late as 1936.

contributions as monographic results of his researches.[2] His journal articles, not numerous, represent a minor part of his contribution to economics.

Aside from his lifelong work on the business cycle, Mitchell has made few substantive contributions to economic theory, at least as that term is usually understood. In this volume the only positive contributions to theory are the paper on "Making Goods and Making Money," which shows the influence of Veblen's distinction between industrial and pecuniary employments, and the essay on "The Role of Money in Economic Theory," which has long taken rank as a classic. Hardly less significant, however, by way of critical analysis, are "Bentham's Felicific Calculus," "Postulates and Preconceptions of Ricardian Economics," "Wieser's Theory of Social Economics," and "Commons on Institutional Economics." The rest of the essays deal with the nature, function, and methodology of economics, conceived of not as an academic discipline but as a purposive social science.

I MITCHELL'S PHILOSOPHY OF THE NATURE AND METHOD OF ECONOMICS

In a round-table discussion with Professors Viner, Hollander, and E. B. Wilson at the American Economic Association meeting of 1927, Mitchell declared that he did not share the impression that a controversy over method was impending among American economists, that he saw "no need for controversy on the problem of how to work," and "that we shall let our different predilections and opinions involve us in a controversy upon methods at large seems . . . almost as improbable as it would be deplorable."[3] Again, in his address at the one hundred and seventy-fifth anniversary of the founding of Columbia University, he saw "a signifi-

[2] Aside from those monographs of the National Bureau of Economic Research which embody the results of research which Mitchell either directed or in which he co-operated, his major publications consist of his two well-known monographs on the greenbacks (*A History of the Greenbacks* and *Gold, Prices, and Wages under the Greenback Standard*) and his two monumental works on the business cycle (*Business Cycles* and *Business Cycles: The Problem and Its Setting*).

[3] *American Economic Review,* Supplement, March 1928; *Essays,* p. 38.

cant sign of the experimental temper of the time" in "the subsidence of controversy about the larger issues of economic theory."[4] In the round-table discussion above referred to, he expressed the conviction that "qualitative and quantitative analysis are becoming so interwoven in economics that it will soon seem pedantic to question the indispensability of either," and that "one who elaborates statistical series in ingenious ways may get as far out of touch with reality as one who excogitates a set of speculative assumptions." On balance, therefore, Mitchell's present attitude seems to be one of tolerance toward all methods of analysis, but with the conviction that "the trend of current work sets strongly in the direction of dealing directly with the concrete and the actual rather than with the abstract and the imaginary."[5]

Mitchell, however, has not always spoken in quite this conciliatory spirit. When assembled under one cover his essays and addresses are a revelation of the extent to which his thought has been concerned with the method and purpose of economics, and much that he has written has been a challenge to methodological controversy. However much we may decry such controversy, and however fully we may agree that mere controversy, in contrast to constructively critical discussion, is usually fruitless, it remains a fact that the rise and development of Veblenian institutionalism in this country has been a tremendous stimulus not only to methodological controversy but to re-examination of the nature of economics and the proper function of the economist.

To the general challenge thrown down by institutionalism Mitchell has added a specific challenge in his reiterated contention that scientific economics must be not only empirical but quantitatively or statistically empirical. Whether Mitchell has thought that the only scientific way of carrying forward and implementing Veblen's work is by laborious statistical analysis we need not attempt to say, but it is worthy of remark that in resorting to statistics as the main instrument of economic analysis Mitchell is using a tool which Veblen rarely used, and is, moreover, sharpening the probability of methodological dissent. In the main it is to be feared that the publication of Mitchell's essays in book form is quite as likely to stir up further discussion on the nature and pur-

[4] "Economics, 1904-1929," *Essays*, p. 404. [5] *Ibid.*, p. 400.

pose of economics as it is to pour oil on troubled waters. It can hardly be said that belief that controversy over abstract generalities of methodology has happily ceased is well founded. It is true that such discussions have practically disappeared from American economic journals—but only to appear in journals of a more philosophical complexion.

Mitchell's evident belief that deductive analysis is on the wane must be regarded as wishful thinking, as a survey of the current English and American economic journals will abundantly prove. Probably not within the memory of man has as much printer's ink been spent on pure theory as today. Certainly one of the most striking features of economic thought at the present time is the prevalence of sheer mathematical logic without a shred of factual data. There can be no doubt that this particular approach intrigues an increasing number of brilliant young economists. It may appeal to them because it seems to free them from the value-judgments which they associate, rightly or wrongly, with institutional economics. Whether it leads only to a blind alley of sterile logic or will, in spite of its abstruseness and far removal from actualities, eventually throw a light on fundamental economic realities that no amount of statistics or institutional history can throw, time only can decide.

Meanwhile we must recognize at once that Mitchell's economic philosophy is not merely a negative reaction to *als ob* deduction and hedonistic assumptions. It is also a highly positive philosophy. If the present writer has correctly read the pattern of Mitchell's thought as revealed in these essays and addresses, it is built on the design of the following basic principles:

1. Rationalistic hedonism as the foundational hypothesis of economic motivation must be discarded once for all and in its place be substituted appeal to realistic, behavioristic, and social psychology.

2. Deductive theory, especially the *als ob* theory of the mathematical equilibrium school, can at best give but doubtful and limited help in understanding the processes of an actual economic society.

3. Economics must be a concrete and realistic study of institutional habits and relations, and these must be regarded not as

fixed but as continually changing; hence economics is not only an institutional, but a dynamic and evolutionary, science.

4. Economics is only one of several sciences studying human behavior; hence we must have far more mutual understanding and co-operation between the various social sciences than we have thus far attained.

5. Where the available data make it feasible, the most exact method of studying economic life is the statistical analysis of mass behavior.

6. Many productive economic researches are beyond the financial resources of individual scholars; hence there is imperative necessity of well-financed and expertly directed research organizations.

7. Economics should be a functional science; it has but one fundamental *raison d'être*—the furtherance of economic welfare.

8. Economic planning is inevitable whether we think it feasible or not. Hence we had better organize to do the job as well as we can. A properly organized National Economic Council would perhaps have but modest success in dealing with the more difficult and important issues, but it would function more constructively than pressure groups or inspirational politicians.

These principles of methodology, point of view, and purpose are not neatly and symmetrically worked out to a system. A consistent philosophy, to be sure, runs implicitly through the entire collection of essays, but its ruling principles are nowhere assembled into an integrated whole. This task is unfortunately left to the reader. Nevertheless, the conception of the nature and function of economic science derived from the above principles gives the clue to the significance of all that Mitchell has written. In summary, Mitchell's view is that economics must be not only empirical, quantitative, institutional (or behavioristic), and realistic, but purposeful and useful—in short, functional welfare economics.

The basic criterion of the validity and usefulness of economic research, in Mitchell's view, is that it shall be realistic. This means that we must deal with concrete factual data, with as much theory as is necessary for the clear definition of concepts. It is not the function of deductive theory to discover problems for empirical research to work on, but rather the reverse. The main function of deductive theory in economics seems to lie in the consideration of problems derived from quantitative data. In any case, deductive theory has no scientific standing or validity—that is, any verifiable validity—unless it is combined with empirical tests of the assumptions on which it is based or the results at which it arrives. To the extent that economics permits itself to deal with motives at all, these motives must be inferred from objective behavior. It is unscientific to proceed on hypothetical motives, hedonistic or otherwise, set up beforehand as a ready-to-wear explanation of objective behavior. Tied in loosely with these objective and quantitative criteria is the institutional idea. Mitchell's Veblenian institutionalism seems to boil down to substantially this: that men in the mass, at any given time and in any given culture-complex, behave in certain standardized ways, according to uniform but not simple patterns; these patterns undergo an evolutionary drift which can be roughly measured by the statistical device of time series and which with adequate empirical analysis is amenable to some degree of rational control and direction.

While Mitchell's institutionalism may be taken as a derivative and even as a rationalization of his skepticism as to the hedonistic assumptions and the deductive logic of classical and neoclassical economics, this need in no way detract from the cogency and validity of his fundamental views as to the nature and purpose of economic science or of his faith in the feasibility of rational direction of economic evolution. Nevertheless, if we wish to evaluate Mitchell's thought as presented in these essays, we are compelled to note that he has devoted much space to consistently maintained attack on deductive theory. It is possible that the uncautious reader will see in some of Mitchell's animadversions a general rejection of theory and all its works. Such interpretation of Mitchell's position would be erroneous. For he is fully aware of the fact that we cannot do effective thinking without deductive theorizing, and that many of our working hypotheses come to us in that way. He makes his attack on certain kinds of deductive theory, or on theory misused, or on theory attempting to stand by itself in isolation from the corrective guidance of the facts of the actual institutional world. In short, what he fundamentally objects to is the putting forth of principles derived, however logically, from *als ob* assumptions as an explanation of actual economic phenomena, and, still more, to the *als ob* theorist coming down out of his ivory tower and presuming to give practical advice on the basis of his hypothetical speculations.

Mitchell more or less implicitly associates deductive theory with hedonistic postulates. Such postulates are not logically imperative, however, since a logically consistent (non-Euclidean) system of economic theory could be built up on nonhedonistic assumptions. The association is natural, however, because all orthodox theory has been evolved on some sort of hedonistic assumption. Practically, also, it is difficult to see how it could be otherwise, if economics deals with the activities of businessmen and laborers, and if hedonism be conceived not in the narrow Benthamite sense, but in terms of seeking satisfiers and avoiding annoyers. Seeking and avoiding may be calculatingly rational or they may be tropismatic and instinctive, impulsive, or culturally patterned habits. It is the assumption of rational hedonism—the constant, reasoned, and calculating pursuit of pleasure and avoidance of pain—to which Mitchell objects, when it is made the one dominating postulate on which understanding of economic behavior is sought.

Mitchell's critical attitude toward deductive economics, like his institutionalism, was originally derived from the profound influence of Veblen, whose attack on classical hedonism came at the time when instinct psychology, which he accepted and built upon, was in the ascendant. A psychology which finds the springs of action in instinct, innate tendencies, or natural bents, rather than in (or in addition to) rational desire, would appeal to one, like Veblen, who had had abundant personal occasion to observe the irrational sentiments, prejudices, and habituations of people. On the decline of instinct psychology, its successors, behaviorism, Gestalt psychology, even psychoanalysis, and their related social psychology, all seem to confirm the idea that human motives must in their very nature be nonrational, except when they concern instrumental policy. These psychologies naturally appeal to a Veblenian institutionalist already convinced of the important role played by nonrational motivation in the economic as in other phases of human behavior.

But Veblen's attack on the classical and neoclassical economists was due to more than his rejection of their antiquated psychology. It was to no small extent due to his contempt for what he regarded as the stupidity of the orthodox economists of his own generation in accepting classical principles at face value, as generalizations definitive, universal, and scientific, instead of what we now recognize them to have been—excogitations, on simplifying assumptions, of what ought to be—or of what Veblen sardonically regarded them to be, rationalizations and apologies for the *status quo*. Here again was thought congenial to Mitchell. True to the philosophy of the inevitability of evolutionary change, but far from wanting catastrophic revolution, Mitchell has never evinced any great faith in the validity of immutable laws or in the practical utility of hypothetical conclusions derived from *als ob* logic.

Mitchell's evident feeling that much of our pure economics is little more than a futile indoor sport is connected with his belief that economic analysis should provide reliable and useful advice for the progressive guidance of our economic life. Whether we like it or not, he implies, our only hope of escaping disaster lies in comprehensive, not merely piecemeal, economic planning.[6] Little practical advice, he feels, can be expected, or should be accepted, from those economists who cultivate abstract (especially mathematical) deductive theory, which in great part does violence to the complexities, the frictions, and the irrationalities of actual economic life, and which is built up by a sort of logical positivism into an ideal, but hypothetical and unreal, system.

Mitchell's critical attitude toward deductive dialectics, on ground of its practical uselessness, was reflected, as far back as 1922, in his subtly satirical review of F. H. Knight's now classic *Risk, Uncertainty and Profit* (1921).[7] After remarking that the distinction between risk and uncertainty is "the chief contribution which Professor Knight makes to the stock of ideas current in economic theory," he adds:

Anyone acquainted with the exposition of economic theory from Jevons and Clark to Wicksteed and Schumpeter can forecast the

[6] See his addresses on "The Social Sciences and National Planning" and "Intelligence and the Guidance of Economic Evolution," *Essays*, pp. 83-136.

[7] *American Economic Review*, June 1922, pp. 274-75.

course of the discussion.... Of course most of the time-honored issues of economic theory come up for comment in the course of the journey, and on each of them the writer has something to say—something which must be classified and catalogued by the erudite sojourners in this land of speculation. . . . Anyone who wishes himself to cultivate pure theory will find here abundant provocation of the sort he likes. With a little ingenuity he can make as many occasions for differing from Knight's "rigorous thinking" (p. vii) as Knight makes for differing from Clark and Fisher, Fetter and Davenport.

What the relation of economics to psychology should be according to Mitchell is not clear. We know that he rejects anything that smacks of rational hedonism and that he has little patience with the "American psychological economics" of Fisher and Fetter, by which, with Commons, he thinks political economy is converted into countinghouse economics.[8] We have his reiterated conviction that economics is one of the sciences studying human behavior, but his positive thought on the psychology of motivation in relation to the task of economic analysis is somewhat obscure. In some places he speaks in the spirit of the extreme price economist as if the analyst is to ignore completely all questions of motive. In 1924 he predicted that "our whole apparatus of reasoning on the basis of utilities and disutilities, or motives, or choices, in the individual economy, will drop out of sight in the work of the quantitative analysts, going the way of the static state." "Motives," he said, "will not be disregarded, but they will be treated as problems requiring study, instead of being taken for granted as constituting explanations."[9] This latter sentence probably represents his central thought. Still, we are left in the dark as to what use the economist is permitted to make of motives even after he has discovered them through the statistical analysis of mass behavior.

In "The Prospects of Economics" (1924) Mitchell minces no words in expressing his impression of the bland psychological ignorance of the orthodox.

[8] "The Role of Money in Economic Theory," *American Economic Review*, Supplement, March 1916 (*Essays*, p. 156 ff.); John R. Commons, "Political Economy and Business Economy: Comments on Fisher's Capital and Income," *Quarterly Journal of Economics*, November 1907, pp. 120-25.

[9] "Quantitative Analysis in Economic Theory," *Essays*, pp. 26-27.

Our orthodox economists have a most inadequate conception of psychology—and economics also, for that matter. They write as if the economist's only concern with psychology lies in the problem of motive. If pleasure and pain are not the motives of valuation, then what are the real motives, if any? That is the sole psychological issue they have grasped. When they pass on from the value problem they think themselves out of the quagmire of psychology on firm economic ground. Obviously this is a grand error. . . . No one can lay down any proposition about business transactions without implying that men have certain standard ways of feeling, thinking, and acting in their market dealings with one another.[10]

If Mitchell means to say that the economist who wishes to be realistic and not to base his analysis on the conventional abstractions of demand-and-supply functions should take pains to find out how businessmen actually do operate in an actual situation, no fault need be found.[11] But Mitchell does not follow up with a demand for specific case work of this kind. Instead, he drifts off into discussion about the need of securing a sounder concept of economic action by studying patterns of behavior or, in short, what may be called statistical institutionalism. This leaves the reader uninformed as to what Mitchell thinks the nature and functions of the real motives are.

We get some, but not clear, light from a passage in Mitchell's long review of Wieser:[12]

To make the defects of the [Austrian] theory as clear as its merits, one must take the psychological viewpoint in sober earnest—far more seriously than Wieser takes it. Seen from this viewpoint, economics is one among several sciences dealing with different aspects of human behavior. . . . Its special province is the behavior of social groups in providing the means *for attaining their various ends*.[13]

[10] *The Trend of Economics,* p. 16; *Essays,* pp. 360-61.

[11] For numerous unanswered questions for the realistic economist in the field of businessmen's price policies, see Arthur R. Burns, "The Organization of Industry and the Theory of Prices," *Journal of Political Economy,* October 1937, pp. 662-80.

[12] "Wieser's Theory of Social Economics," *Political Science Quarterly,* March 1917, pp. 95-118; *Essays,* pp. 225-57. The passage quoted is from the *Essays,* pp. 253-54.

[13] Italics supplied by the present writer.

Here, obviously, is suggestion that recognition of means-end relationships is essential to economic theory. But Mitchell continues:

Now, human behavior can be studied either from outside or from inside the human being. An economist may observe and record what men do in business, as a meteorologist observes and records the weather. An economic historian may study the recorded observations of others on human behavior, as a geologist studies evidences of former conditions of the earth's crust. And these objective students may try to frame illuminating generalizations about human behavior, *without the aid of suppositions concerning human aims.* Such work is as truly part of economic theory from the psychological viewpoint as is the Austrian analysis. . . . But work of this objective kind cannot be done without the statistical and historical apparatus that Wieser rejects.

In the first paragraph Mitchell recognizes ends, but in the second defends the strictly behavioristic (objective) method which avoids questions of human aims—or at least has no working hypothesis as to what they are. It is a little difficult to see how welfare economics, which assuredly is without compass or frame of reference unless it discovers or posits some human aims, can be much advanced by generalizations, no matter how illuminating otherwise, which have no reference to the purpose of the human behavior on which they are made.

There is perhaps no inconsistency in Mitchell's thought here. One might jump to the conclusion that in 1917 Mitchell had gone so "behavioristic" that he had no use for ends, aims, motives, or anything of the kind. Yet in 1924 he talks of "standard ways of feeling, thinking, and acting."

If we ask what "feeling," whether standardized or not, is about, we are inevitably led back into the province of want, desire, interest, and the human will, and we are compelled to conclude that whether the economist infers motives from case studies, statistical trends, or his own introspection, he cannot get away from them. The economist can work either from within or from without consciousness, according to the nature of the problem he has immediately in hand; but if Mitchell, the welfare economist, wants to know why the price series observed by Mitchell, the statistical analyst, behave as they do, in order that something may conceivably be done to make them behave in a way more conducive to economic welfare, Mitchell, the economist, will have to appeal to motives whether he is able in some way to infer them from the price data themselves or whether—as Keynes has got his "liquidity preference"—he gets them by some unexplained intuition, insight, or introspective analogy. The main trouble with Mitchell's treatment of motive is not that he is inconsistent but that he is not sufficiently clear and explicit on the relation of behavioristic analysis to purposive, or welfare, economics.

It is difficult not to feel that Mitchell, in his repetition of the dictum that economics must be a behavioristic science, has fallen victim to the tyranny of words. Merely to say that economics is one of the sciences that study human behavior may mean anything or nothing. All the social sciences are concerned with behavior in one way or another, for behavior is all that men feel, think, and do. It does not follow, however, that the only way to study what they feel, think, and do is to take behavior in bundles of statistical averages. Nor does it follow that what Mitchell calls speculative analysis, based on hypothesis as to the motives operative in business, may not have a genuine contribution to make, even to an economics designed to function in the service of economic planning and welfare.

Be that as it may, as late as 1930 Mitchell shows that he can still make sharply barbed comments on the nonquantitative, abstract, and hypothetical approach: "Economic theory of the speculative kind is as cheap and easy to produce as higher mathematics or poetry—provided one has the gift. And it has the same problematical relation to reality as do these products of imagination."[14]

II MEANS, ENDS, AND WELFARE ECONOMICS

Mitchell, with Commons, is the leader of the American institutional school; he is an unwavering advocate of the statistical method of studying economic behavior; he is also an avowed wel-

[14] "Institutes for Research in the Social Sciences," *Journal of Proceedings and Addresses of the Association of American Universities, 31st Annual Conference,* 1930; *Essays,* p. 59.

fare economist. He refuses to take the "disinterested observer" pose which is affected by some economists. For him, economics is far more than an interest and a vehicle for the intellectual but otherwise purposeless scholar. Indeed, economics in his mind has a deep moral purpose in that it should provide the understanding and insight prerequisite to effective rational control of the economic process in the interest of social welfare. But while the object of purposive economic research and understanding is the furtherance of welfare, or at least of the elements and conditions which may be regarded by general consensus as fundamentally essential to welfare,[15] this object is taken as a matter of course rather than as matter for discussion. Neither the immediate nor the ultimate purposes of economic policy must be allowed to bias the interpretation of data or the logic of analysis; nevertheless, implicitly in Mitchell's mind, all economic research is conducted within the frame of reference and from the point of view (however distantly and indirectly) of the general objective of economic organization and process.

Most economists, being specialists of one sort or another, are absorbed in instrumental technicalities, but there can be little doubt that practically all economists will admit that the function of the economic process is in last analysis to further some human end vaguely called welfare, or a little less broadly, economic welfare. But implication that all economists are welfare economists would be as meaningless as the term welfare itself is when used without context or definition. The trouble with welfare, or even with economic welfare, as the general end to be served by economic instrumentalities, is that it is little more than a verbal ideal, an empty box, of no value until given a content.

What to put into this empty box is the crux of the whole fundamental means-end problem, not only of economics but of all the purposive social sciences. For the content of welfare must be values of some kind—not the rational values of instrumental functions, but the end values which are the unmediated constituents of what is nowadays glibly called the "good life." But it is no easier to define the content of the good life than it is that of welfare. We have made a mere verbal substitution. Hence, to the scientific

[15] *Essays,* pp. 174-75.

economist, who in his philosophy of methodology is commonly more given to logical absolutes than to pragmatic relativities, welfare is not an empty box. Rather, it is a Pandora's box, full of he knows not what subjective troubles, and he prefers not to open it.

The avowed welfare economist, on the other hand, thinks it a bit illogical to spend all our intellectual energies on consideration of instrumentalities before we have attempted to reach a tentative agreement on the ultimate objectives these instrumentalities are to serve. He thinks it logical to start with the objectives and work back through the requirements they place on the available means, to the choice and management of instrumental policies. But he also recognizes that welfare or the good life is an objective which cannot be rigidly defined, and, indeed, that it is probably incapable of definition in purely rational terms.

We are thus on the horns of a distressing dilemma. We may follow the price economists and the technical experts and concern ourselves only with immediate instrumentalities, or with mediate ends which are in turn only means to more distant or more general objectives, in the blind faith that somebody knows what these ultimate objectives ought to be, but formally disclaim that it is any of our concern, as economists, what these ultimates are. Or we may follow the (presumably less hardboiled) welfare economists into the uncertain no man's land between ethics and economics, and try to put a generally acceptable content into the empty box of welfare. On either course we get into difficulties.

In last analysis, ethical norms, ends, values, are matters of feeling. Value-judgments, if they are not judgments simply as to the appropriateness and efficiency of instrumentalities, are sentiments. This being the case, it is futile to expect anything like full consensus on the content of welfare. In time, our knowledge of human physiology may become sufficiently refined, and both knowledge and insight sufficiently widespread in human society, to afford a rational basis for consensus on certain general and fundamental values. But that time is still distant. Meanwhile there is possibly only a pragmatic escape from the dilemma, and even that is feasible only within the compass of a given culture. The content of welfare will have to be judged by such consensus as there may be on the part of the competent leaders in the study of human needs.

Even economists, like Pigou and Hobson, who definitely set up welfare as the end, do not define it. Hobson's organic welfare would be capable of reasonably objective definition, were the concept limited to the individual human organism, but Hobson gives it a turn which suggests both the naive organic analogy of Spencer and the early sociologists and the romanticism of Othmar Spann.[16] Both involve vicious confusion of means and ends. Pigou is more chary. He avoids the social organism fallacy. "Welfare includes states of consciousness only," and these have something to do with "satisfactions." But Pigou refuses to discuss the content of welfare because it would "constitute a task so enormous and complicated as to be quite impracticable." Furthermore, he limits his thought to economic welfare, by which he means that phase of welfare which can be dealt with and measured in pecuniary terms. Needless to say, this recourse, while it may be pragmatically the best course open, does not free us from the problem of consensus.

Mitchell's specific references to welfare are brief and incidental to other matters, but they indicate that he accepts without quibbling certain physical conditions as established fairly definitely by consensus as essential prerequisites of welfare.

In 1916 he wrote:

> Economic life may be regarded . . . as a process of making and spending money . . . also as a process of making efforts and gaining satisfactions . . . finally as the process by which a community seeks its material welfare. On this view every person is a contributor to, a burden upon, or a detractor from the commonweal. . . . Such accounting as is possible runs in terms of heightening or lowering the community's vitality. . . . It is feasible even now to set up a tentative criterion of economic welfare, and make investigations into the relations between the various features of economic activity as now conducted and welfare as thus conceived. Such work may have as keen theoretical interest, as genuine scientific standing, as work that professes to maintain a serene indifference to the fate of humankind. But its successful prosecution . . . presupposes considerable knowledge of how economic processes actually work at present. . . . In the interests of social welfare itself we need clearer insight into the industrial process of making goods, the business process of making money, and the way in which both sets of activities are related to each other and to the individual's inner life.[17]

[16] J. A. Hobson, *Work and Wealth* (1914), Ch. I; *Free-Thought in the Social Sciences* (1926), Part II, Ch. IV.

[17] "The Role of Money in Economic Theory," *American Economic Review*, March 1916; *Essays*, pp. 173-75.

In 1924 he is more definite as to the content of material welfare:

> In becoming consciously a science of human behavior economics will lay less stress upon wealth and more stress upon welfare. Welfare will mean not merely an abundant supply of serviceable goods, but also a satisfactory working life filled with interesting activities. At present welfare thus conceived is rather vague, but it is capable of being made objective and definite in reference to such matters as food, clothing, shelter, sanitation, education, fatigue, leisure. And this realm of the definite in welfare will be expanded steadily by quantitative methods, so that we shall develop a criterion of welfare applicable to many lines of effort.[18]

It would be unfair to expect or to demand of Mitchell a philosophical essay on the difficulties of the welfare concept, on the relations between economics and ethics, or on the logic of means and ends. His mind does not run to abstractions. It is sufficient that he definitely takes the stand that economics must not only be realistic but realistic to a purpose—a purpose which he thinks capable of more definite delineation than the undifferentiated generality, economic welfare. It is obvious that Mitchell in the above passage definitely and explicitly recognizes the significance of a fundamental means-end relation for economics and is not scared off by an academic fear of value-judgments.

Assuming it possible to entertain realistic hope that within a given culture reasonable consensus may be attained not only as to the content of economic welfare but as to whose welfare is to be subserved by the economic process, it is obvious that an economics which does not dodge the question of its own purpose by seeking refuge in monkish seclusion behind the walls of valueless objectivity has two tasks to perform.

The first task is to define, as specifically as circumstances permit, the content of that part of welfare which is directly correlated with economic processes. The problem of the content of welfare is a problem of ends, not of instrumentalities. In the task of defining this content, it goes without saying, economists cannot and will not rely entirely or even mainly on their own science. They must make use of the relevant findings of a large number of other

[18] "The Prospects of Economics," in *The Trend of Economics*, p. 31; *Essays*, p. 381.

sciences. Mitchell, more than most economists, recognizes this interdependence and continually emphasizes it. It is regrettable that economists have generally failed to give more than halfhearted attention, at most, to this problem of ends. The reasons for this failure are fairly obvious. They lie in the prevalent fear of value-judgments and in the fact that most economists are specialists in one or another of the various technical and instrumental fields into which economics has been divided, necessarily, but not without unfortunate loss of integration and perspective.

The second task is the study of instrumentalities. This is the task to which economics has almost exclusively been devoted. It has been a task congenial to scientific economists because the ends ordinarily considered by the specialist or expert are immediate and objective and are in fact only intermediate instrumentalities. To the expert they are ends pro tem, and he does not bother to think about ultimate economic objectives. But the fact that he may not give thought to such objectives does not mean that he is free from feelings or sentiments as to what should be the ultimate objectives. He is no more free of such value-judgments than anyone else. The trouble is that he is unlikely to recognize and admit his own sentiments. Not all the conspicuous disagreements among specialists are due solely to differences of logic and reason. Without dwelling on the broad diversities of sentiment which hide behind the façades of intellectualistic ideologies—communism, fascism, capitalistic individualism—it is fairly obvious that even within the somewhat elastic and changeful ideology of capitalism differences of expert opinion, for example, on labor policies, on money and credit, and on effective ways of promoting recovery from depression, may be in part traceable to differences in sentiment as to what the general social objective of policy in these respective instrumental fields should be.

The main volume of Mitchell's work and thought has been in the realm of instrumentalities. He differs from the general run of prominent economists in that he definitely brings to our attention, albeit with touch-and-go brevity, the problems of ends. He continually emphasizes the imperative need of understanding the working of the economic system as it actually is. This means that in spite of his institutionalism and his implicit welfare frame of reference, he emphasizes knowledge of instrumentalities, with comparatively few explicit and specific references to the end these instrumentalities are supposed to serve. If he were addressing himself not to professional economists but to the "lo here, lo there" sentimentalists, or what H. G. Wells calls the "for-God's-sakers," his emphasis on factual knowledge would be entirely proper. It may have some propriety when addressed to the equilibrium economists if and when they are in danger of forgetting that their system of thought is idealistic and hypothetical. It certainly has propriety if addressed to the lay public and to lawmakers who have a sense of accomplishment when they get a law on the statute books, whether it can be enforced or not. In other words it points to the function of practical, pragmatic knowledge. No one who has his feet on the ground will question the need for such knowledge.

There can be no quarrel with factual knowledge, provided it is scientific—i.e., organized and integrated—and provided we know what to do with it, either in aid of understanding or of policy in action. We here encounter the problem of the frame of reference of our understanding of facts. There may be more than one frame of reference. There are at least two in Mitchell's system of thought. One is derived from Veblen's institutional evolutionism, or is in fact identical with it. According to this, we understand a social institution or an economic relation when we have a thorough knowledge of its historical origins and genetic development. It then appears as a stage in an evolutionary process and we explain it as such. If this were all there is to economics, economics would be a phase of colorless and thoroughly objective institutional history. Understanding, in this frame of reference, satisfies only what Veblen called idle curiosity. (It is idle because it has no other motive than itself—knowledge for the sake of knowledge.) Granting that idle curiosity may be a sufficient and sustained motive to an adult, intelligent, and integrated man, there is nothing illogical in its systematized results. The fact that Veblen's "disinterested observer" attitude was a satirical pose which deceived no one, and which he meant to deceive no one, should not lead us to deny the logical validity of such a frame of reference.

But there is another frame of reference, both in Veblen and in

Mitchell. It is that of the meaning or function of factual knowledge in reference to the direction and control of the stream of institutional evolution. Whether such a desire be proper in the scientist or not, both Mitchell and Veblen desire to control the course of economic change. The motive is now not idle curiosity but the "instinct of workmanship." And from this point of view, understanding is something more than hindsight or knowing the genetic causation of things. It now takes on the complexion of foresight or a certain teleological character.

The issue, therefore, involves no questioning of our need of factual knowledge. It lies in the significance or meaning of the knowledge we have or can get. And in this frame of reference meaning has an instrumental or value complexion. For all welfare economists, and specifically for Mitchell—who holds that "in economics, as in other sciences, we desire knowledge mainly as an instrument of control"[19]—the meaning of meaning must lie in the sphere of values. It must have some reference to the ends or objectives to the attainment of which economic instrumentalities and policies are to be directed. Unfortunately, Mitchell, like most economists, nowhere brings out clearly the significance of the means-end relation for economic analysis, and especially for a purposive economics, and his thought seems to vacillate between the idle-curiosity and the instinct-of-workmanship frames of reference. In his brief references to welfare, and less definitely in the addresses in which he argues the necessity for national planning and advocates the establishment of a National Economic Council,[20] he has ends explicitly in view; but in most of his other essays, ends are only implicit. They lie darkly in the background while the discussion proceeds on lines either of institutional description or of policies and instrumentalities the objective of which is rather taken for granted than definitely held in view.

There is no reason to think that Mitchell would question that from the standpoint of an instrumental or purposive economics "understanding" or "insight" must have to do with the instrumen-

[19] "The Prospects of Economics," in *The Trend of Economics*, p. 25; *Essays*, p. 372.

[20] "The Social Sciences and National Planning," *Essays*, pp. 83-102; "Intelligence and the Guidance of Economic Evolution," *ibid.*, pp. 103-36.

tal relations of the economic process to the ultimate function—economic welfare—of that process, but he leaves this connection too much to the reader's intuition; and he does not guard against the tendency of the economic specialists to hypostatize means into ends.

Veblen rejected classical economics because he thought that it did not furnish genuine knowledge as to how the economic system actually works. Mitchell repeatedly emphasizes the primacy of factual research because he too wants to know how the system works. But the question "How does it work?" connotes a means-end relation. It is plausible to say that we should know how the present system works before we indulge in too much wishful thinking as to how it should work or embark on ambitious schemes of economic planning; but insight into the working of the system is not as simple as this statement implies. Understanding of a system can be derived from description only if the description is selective and made from the frame of reference of the function of the system. In economics, as in the other social sciences, mere description of mechanical relations and narrative of time sequences, no matter how elaborate or how much facilitated by statistical techniques, is meaningless. The working either of a machine or of a social system can be understood only with reference to what the machine or the system is supposed to do.

Consequently no economist who thinks of himself as anything more than an instrumental specialist or mere dilettante can be excused from the duty of thinking in terms of ends as well as means, of function as well as structure. If we are to discover how an instrument works, if we are to measure its efficiencies and inefficiencies, we must have some standard or criterion—at least some approximate idea—of its function or purpose, which will in some sense define its ideal efficiency. We must also have an ideal of the purpose of the system. This ideal purpose is in last analysis a value, an interest, and consequently any economic theory which is avowedly (as welfare economics must be) purposive and teleological is founded in part on fundamental value-judgments. The ideal process functionally suitable to the realization of these ideal values will never actually be attained but it will take form in men's minds as an ideal type. No two economists, perhaps, will conceive identical ideal types of instrumental process, partly because no two will precisely agree in their ideal ends or their conception of economic welfare. Consequently both the ideal end and the ideal type of economy will vary somewhat, both with changing culture and with individual sentiment. The question, therefore, is whether there is an ideal end of sufficient objectivity and one on which there is sufficient pragmatic agreement or consensus to warrant its use as a criterion of the actual working of any existing economy.

There is a fundamental and inescapable element of teleology both in machine design and in economics. No one designs a purposeless machine and no one, really, is interested in a purposeless economy. The signal difference between machine designing and economic planning is that the end in the former is objective, definite, and not a matter of sentiment, while in the latter the end can be formulated only provisionally and pragmatically, within the limits of a consensus of value-judgment which is never universal. If attempt be made to state the end in terms of welfare, or the "good life," we are thrown into a subjective realm in which, in the last analysis, whatever consensus there may be as to the ideal type must be consensus of feeling and sentiment. Welfare economists will do well, therefore, to restrict their teleological ideal to economic welfare, and to confine their study of means-end correlations to the relations between economic processes and the standard of living.

To this it may be cogently objected that there is no certain and constant correlation between a high standard of living and welfare in the moral or aesthetic sense of "the good life." Such objection has point where, as is unfortunately too commonly the case, the term "standard of living" is taken to mean a consumption standard measured in the amount of goods and services consumed. But to think of the standard of living exclusively in terms of consumption is shortsighted. For, assuredly, what men and women get out of the economic instrumentalities of welfare is not merely what these instrumentalities afford them for consumption, but what they afford them to do—and to do not merely in their leisure time, but in their working hours. Mitchell, in the passage above quoted (p. 222), is one of the few economists who have made "a satisfactory working life filled with interesting activities" an explicit and important element in welfare and by implication in the standard of living. A high consumption standard of living can be purchased at too high a cost—cost in terms not only of work galling or deadening to the human spirit, but in terms of mortality, morbidity, fatigue, and loss of leisure and liberty.

Here again we encounter relativities, for what is too high a cost may be a matter of scientific finding—e.g., in the case of fatigue—or it may be a matter of social conventions or even of individual whim, especially in the valuation set on leisure and in the kind of work one finds interesting. Nevertheless, it seems fairly obvious that an adequate and well-balanced concept of the economic standard of living must be framed in the dual terms of income and cost of income. On its cost side, the attainable standard of living is definable only in terms of the limitation of the cost which the people are willing to incur in order, within these limits, to maximize their income. This means that certain institutionalized customs or regulations, as to the length of the working day, the number of rest days, the intensity of work, and legal or conventional rules as to who shall work and who shall not work, must be assumed.

With these provisos in mind, it is safe to assume that the per capita consumption standard of living, the level of per capita consumption income, is directly correlated with technological and organizational efficiency of the total economy, and that the enhancement of economic welfare will find its ideal limit in the (continuous) maximization of the output of consumption goods and services. Consequently, the rational ideal end for the economic-welfare economist—the maximization of material welfare—gives him also the rational ideal of the use of economic instrumentalities. This ideal is the maximization of the per capita output of consumption goods by the utilization of economic resources (within the institutional restrictions above mentioned) as fully and effectively as possible. These resources include technological knowledge and aptitudes, natural resources, labor power, material capital, and organizational capacity.

The ideal of maximizing the income producible with given resources is merely a theoretical application of the principle of least means. There is nothing arbitrary, ethical, or subjective about it.

It is an ideal or norm implicit in the conception "economy." Without it, economy is meaningless. One signal difference between the economist and the fanciful utopian is that the former knows, and the latter does not, that the future of the standard of living (economic welfare) is limited by the future organization of production (including the reactions of distribution on production) and by the productive resources available in the future. These set the limit beyond which at any given time and in any given state of the arts maximization of per capita income cannot go, even in the state of ideal economic equilibrium, in which, theoretically, all productive resources that can be used are used where they will be most productive.

This long discussion of the means-end relation, and especially of the necessity of defining the end, is not a gratuitous digression. We all, with Mitchell, want to know how the economic system works. That means that we wish to know how and in what measure it serves the end for which it exists. To avoid at least the major difficulties involved in the general welfare concept, we have to define the end in terms of economic welfare or the material standard of living. So defining it, we are in position, theoretically at least, to compare actual efficiency with ideal efficiency; and we find the standard of ideal efficiency just in that ideal economic equilibrium, or balanced economic society, in the theory of which Mitchell appears to see little value for a purposive economics.

The factual knowledge of evolutionary institutional history and the intricacies of *post hoc* statistical correlations may give us a reasonably accurate picture of the road we have traveled up to the present moment; they may be of some service in enabling us to predict, with some slight measure of probability, where we are going from here (though in the present state of civilization this is doubtful);[21] they may even show us here and there what we must avoid doing if we wish to progress toward the maximization goal of social economy; but it is difficult to see how they can be the positive guide we need. If there is any rationale at all in the economic process, positive guidance can be found, if at all, mainly,

[21] John R. Commons, in "Capacity to Produce, Consume, Pay Debts" (*American Economic Review,* December 1937), offers some pertinent remarks in this connection.

if not solely, in the logic of economy itself—in the least-cost principle which is the foundation of the theory of total-equilibrium economy.

Even the institutionalist should recognize that there is a theoretical, logical upper limit (not indeed fixed, except for the heuristic purposes of analytical understanding) beyond which, with given resources, even the most perfect economy could not raise the standard of living. It is perhaps a matter of indifference whether we think of this limit as a limit fixed by natural law or one fixed by the inherent logic of economy and efficiency. The difference is only verbal. But there is some danger that institutionalists (not Mitchell) may, in their breadth of view, drift into the vagaries of romanticism or into the intuitionism of *Geisteswissenschaft,* and that as welfare economists they may be so impressed with the defects of the existing economy that they will not keep their feet on the ground by getting in mind and keeping in mind the logical limits of any economy. Of course, it may be answered to this that the present system is afflicted with so many and such glaring ills that we should proceed to apply remedies without bothering about concepts of normal or perfect health. Within limits this argument is valid, but it breaks down where really fundamental reforms are proposed or where the long-run effects of changes in fundamental policies are to be considered. Pragmatic temporizing is especially inadequate, and may be dangerous and injurious, if and when we venture to embark on the comprehensive economic planning which Mitchell advocates.

III THE PLACE OF THE THEORY OF EQUILIBRIUM IN A PURPOSIVE ECONOMICS

The theory of economic equilibrium, whatever else it may be, is essentially the theory of ideal economy in the distribution (or apportionment) and utilization of productive resources. Some equilibrium theorists are loath to admit the ideal character of their analyses, but in this they are shortsighted, for it is only in its idealism, its concern with the perfect ideal type of organization and process, that deductive equilibrium analysis has any reality. The fact that equilibrium theory is usually based on assumption of complete free competition is beside the point. Free competition is only one condition on which an ideal economy might rest. An alternative condition would be perfect economic planning and control. The essential point is that under either ideal competition or ideal planning productive resources would be so organized, distributed, and proportioned that the production of consumption goods and services would be maximized and stabilized.

Mitchell is critical of the classical type of deductive economic theory because he thinks its basic psychological assumption—hedonism—is wholly unreal. Granting that the assumption of the rational pursuit of gain is a simplifying assumption, one may ask whether it does great violence to reality. After all, the assumption is merely that businessmen—and laborers too—do seek to maximize their net income and seek to do so rationally, within the scope of their knowledge, power, and understanding. No one has yet demonstrated that the desire for gain (whether in terms of money or of power) has not always been and still is overwhelmingly the main motive of business. Of course there are other motives—social, moral, and aesthetic—actuating the average human individual. To some of these the economic motive is a means. Man shall not live by bread alone, but a modicum of daily bread is prerequisite to whatever else he lives by. And some of the other motives which are adduced by the sociologists in supposed disproof of the primacy of the economic motive are in their nature essentially institutionalized or moral restrictions on the free operation of the economic interest. Viewing economic life and the market place historically and at large, one may be pardoned for thinking it an open question whether the convention of fair dealing (for example) has been evolved more from some inner moral sense than from the selfish and materialistic motives of the market itself. In this region of motives Mitchell is a poor guide. Demanding realism, he rejects hedonistic postulates, but gives us nothing very definite or very convincing in their stead. We may give heed to his admonition to study modern psychology, yet we may doubt whether psychology, however modern, has much to offer the economist. If we wish insight into the legal, customary, and conventional (that is, the institutional) frame within which the operation of the motives which actuate the economic process are (more or less effectively) confined, we must turn to a work like Commons' *Institutional Economics,* where in spite of some juggling with categories we get realistic analysis of the bargaining process.

The unreality of deductive analysis lies far less in its hedonistic postulate than in its unavoidable drastic simplification of data, or rather of premises. The number of variables is so great and, according to alternative assumptions as to the nature and force of even the most important variables, the number of possible or even probable cases so large, that any but fragmentary analysis becomes a bewildering assembly of "ifs." One fruitful source of misunderstanding among theorists is that it is humanly impracticable explicitly to state all the assumptions back of the "if." The necessity of simplifying by impounding masses of variables in *ceteris paribus* is, to the present writer's way of thinking, the most serious criticism that can be brought against the deductive method. Nevertheless, such alternative impounding is a rational device for getting down to the essentials of a complex situation, and this method has, at least theoretically, the advantage that all conceivable combinations of variables can be studied, and of these combinations those most likely to be met with in actual economic life can be singled out for testing by experience. Whereas the inductive method, attempting to deal realistically with the puzzling and intricate complexities of the actual situation, is quite likely to fail to distinguish the primary from the secondary and relatively unimportant forces.

It would be well for both the institutionalists and the deductive equilibrium (and disequilibrium) theorists to lay aside the "either . . . or" attitude and give a little more sustained and serious thought to their respective frames of reference. Put briefly, the function of the deductive theorist is to work out the logical results of the economic motive; the function of the institutionalist is to analyze the effect of institutional controls in either restricting or promoting the operation of the economic motive. It is impossible to work out a logical theory either of equilibrium or disequilibrium without some institutional assumptions. Unfortunately, the deductive theorists rarely state what their institutional assumptions are. On the other hand, there is possibly a tendency (somewhat evident in Mitchell) on the part of institutionalists to emphasize the institutional frame within which the economic process is confined, and to lose sight of the configuration of the process within that frame. We can accordingly hardly award the palm of realism to the institutional economists; to study the frame and slight the picture in it is hardly realism. Nor can any deductive theorist lay claim to realism in other than a logical sense. All general, abstract economic theory is *als ob* theory. As Mitchell says, "Orthodox economic theory, particularly in the most clarified recent types, is not so much an account of how men do behave as an account of how they would behave if they followed out in practice the logic of the money economy."

In this particular passage, in contrast to some others, Mitchell gives the devil his due, for he goes on to say:

The better orientation we are getting will not lead economists to neglect pecuniary logic as a sterile or an exhausted field. On the contrary, not only will it make clear the limitations of the older work, but it will also show how the old inquiries may be carried further, and how they may be fitted into a comprehensive study of economic behavior.[22]

It is regrettable that Mitchell has not been interested in carrying this thought farther and in showing how deductive analysis and empirical institutional analysis can be made mutually fruitful. It would seem that the most promising basis for co-operation between the two methods lies not in insisting that economics must be a behavioristic science, but in admitting that it is a purposive science.

Once economists regard their science as purposive, the importance of recognition and analysis of means-end relations becomes obvious. Consistent attention to these relations will lead to some re-examination of the meaning of "economy," and the criterion of perfect economy as the maximization of per capita real income will be thrown into the high relief it should have. It may be that then even institutional economists will conclude that the classical writers and the mathematical economists have built better than they knew, and that deductive analysis of equilibrium economy is after all something more than a useless intellectual diversion; for the analysis of the utilization of scarce means for the purpose of maximizing income, so far as is technologically, institutionally,

[22] "The Prospects of Economics," in *The Trend of Economics*, p. 24; *Essays*, p. 371.

and humanly possible, will be seen to involve approach to economic equilibrium (or a balanced economy). From this point of view and approach, economic theory will become essentially a theory of social production. Valuation and distribution will fall into their logical place as the process by which productive resources, via the technological significance of factoral proportion and the conceptual ideal of margins of utilization, are economically allotted to their alternative and competing uses, in the interest of high efficiency as judged by the input-output, or the cost-income, ratio.

But the theory of economic equilibrium, even when set in this teleological, social, and efficiency frame of reference, will be only the starting point for a functional economic theory. In other words, the theory of ideal equilibrium is useful only for heuristic purposes—more specifically, as a compass which will enable the purposeful theorist to keep to his bearings. While the ultimate ideal goal of purposive economics is the perfectly balanced economy, all the intermediate instrumental problems of economics are problems of dynamic disequilibrium. In effect, therefore, economics is a trouble-shooting science. Inductive, and statistical, analysis is an indispensable aid in this process, but it cannot be the only or the basic guide, since there is no reason to suppose that empirical statistics alone will enable us to stick to the main line staked out for us by the theory of equilibrium. That theory in itself is not enough, however. It is indispensable as a delineation of the structure of ideal economy, and hence as a criterion of what the rational direction of dynamic movements should be, but it does not of itself analyze these dynamic movements. Understanding in this dynamic realm will be immensely furthered by *als ob* deductive analysis of the logic of movement from one (assumed) equilibrium to another, under the impact of certain assumed changes, such as a change in the rate of investment, a technological change resulting in a given reduction in unit costs, a change in the relative available supplies of productive factors, and so on. The central interest of economic theory today is along these lines. The amount of deductive analysis now being devoted to them is impressive. Not all of it will be found valid or fruitful, but it will lead the way which empirical statistical analysis will have to follow.