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# Contemporary Economic Thought

*By*

*Paul T. Homan*

Assistant Professor of Economics  
in Cornell University

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New York and London

*Harper & Brothers Publishers*

1928

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CONTEMPORARY ECONOMIC THOUGHT  
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PRINTED IN THE U. S. A.

FIRST EDITION

M-B

TO  
C. C. H.

Whose complete indifference to the contents  
of this book has been a solace and relief  
during the period in which it took form.

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## *Preface*

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SOME years ago the writer undertook the task of comparing the doctrines, opinions, and points of view of contemporary writers in the field of general economic theory. This effort was induced by a growing realization of the fertility and incompatibility of the ideas that were being currently expressed. The fluidity of economic thought was strangely in contrast to the dogmatism and finality which found expression in university text-books. Even professional economists, having become engrossed in those specific tasks of investigation in which their efforts have been so fruitful, seemed frequently but little aware of the stirrings of thought in the field of theory, or but little interested in them. Yet it has been to the central body of theory that economists have been wont to point as the accumulated scientific accomplishment of economics.

Out of these studies grew a project for a general survey of contemporary economic thought. The difficulties of properly accomplishing in a creditable fashion so ambitious a project led, however, to its abandonment. Economic doctrines and viewpoints are so numerous and so personal, and relate themselves to so many strains of thought outside the economist's

characteristic discipline, that a survey of economic thought seemed to involve almost an inquiry into all the intellectual diversities and controversies of our times. Added to this was the absence of perspective which inevitably attaches to general inquiries into contemporary thought, and the failure to find any scheme of classification by which a large number of economists could be domesticated to orderly treatment. Consequently, a less ambitious and apparently more fruitful project was conceived of setting alongside each other a series of personal studies, setting forth the points of view, methods, and conclusions of a number of economists picked with the idea of presenting as many as possible of the diversities of current economic theory. The present volume is the outcome.

No defense is to be entered of the choice of men for treatment. It must of necessity be an arbitrary process. The most that can be said for the choice made is that the subjects of the following essays seem to the writer to illustrate a wider diversity of thought than could be attained by selecting any other group of English and American names, and to represent as great an influence upon contemporary economic thought as could be found in any five men.

A certain objectivity has been attempted in the treatment of the economists selected for analysis. The aim has been, not to award praise or blame, but mainly to display the thought of men whose theories are mutually incompatible, to relate their economic thought to the

wider spheres of thought which color it, to consider the relation of their thought to the external reality which it purports to explain, and to raise questions concerning the validity and adequacy of the types of theory displayed. The real point of the essays lies in the attempt to explain why at a given point in time men engaged in the analysis of approximately the same objective data come to such disparate conclusions. In a sense, then, the implications of these studies are much wider than the field of economic theory, since they demand a consideration of the whole framework of thought which men bring to the analysis of social facts, and a critical examination of the assumptions which underlie the disciplines of all social sciences.

Since the aim of these studies has been the accurate analysis of the thought of others, it has seemed advisable, for the most part, to suppress the personal bias of the writer. That bias will, however, no doubt be sufficiently apparent to most readers to make any personal avowal of faith unnecessary. It is such as might be expected of one who, brought up in the faith of Marshall, then dallies a while in the camp of Veblen, and thereafter seeks for himself an independent position which shall commit him to the dogma of no one. It arises from a type of eclecticism which, were any full statement of it attempted, would doubtless be unsatisfactory to all who entertain strong convictions concerning economic theory. The aloofness of the viewpoint from which these essays proceed is, in consequence, not

quite a pose. The writer has, for the moment, no economic faith which he is much interested in propagating. He is more interested in disentangling those strains of thought which lead to the present confusing uncertainty in the field of economics and in asking what fruitful constructive leads appear therein. A beginning is sought for that perspective which only time can complete.

Parts of these studies have previously been published,—the essay on John Bates Clark in briefer form in the *Quarterly Journal of Economics*, the one on Thorstein Veblen, also abridged, in *American Masters of Social Science*, published by Henry Holt & Company. An expression of appreciation must be made to the Robert S. Brooking Graduate School of Economics and Government which made possible the leisure in which the essays took form. It is desired also to acknowledge the debt to many friends for their critical observations, and in particular to thank Miss Helen R. Wright for her patient reading and criticism of practically the whole manuscript.

P. T. H.

ITHACA, NEW YORK.

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## *Introductory*



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MEN'S minds have always, it seems, furnished them with some sort of explanation of the phenomena which surround them. Such explanations have in the past prevailingly run in terms of supernatural forces. It is only during the last three centuries that the physical universe has been searchingly subjected to minute inspection and made to give up the secrets of its being. Out of the knowledge so distilled by scientific investigation has been derived that vast technical and mechanical development which has given shape and form to our contemporary civilization. The growing belief that the universe was controlled by natural laws acting in a uniform fashion, rather than by the immanent hand of the Deity and of his arch-enemy, extended its influence to the sphere of human activities. Thus, though speculation concerning the nature of human institutions was already an ancient and honorable occupation, it received a new impetus and took a new turn which has led with the passage of time to the development of the so-called "social sciences."

The new impetus was the scientific spirit, the new turn a search for the natural laws which govern the activities of mankind. This search was first pursued with

any assiduity in the fields of political and legal thought, and the end in view was a valid and satisfactory explanation of the nature of the state, or the sovereign, and of the relationship between it and the individual. It was out of speculation along these lines that there emerged that characteristic and persistent body of eighteenth-century doctrine which is summed up in the phrases "natural rights" and "natural liberty." Mediæval thought passed out of the picture with the rise of the new view that social relations are the outcome of contractual relations between individuals.

Such a view had become commonplace when, about the middle of the eighteenth century, attention was directed more specifically to the examination and explanation of economic relations between men. Economic science in its infancy thus was furnished with an intellectual background of a very definite sort. From physical science it was furnished with a scientific analogy and a controlling scientific principle, the heart of which was the tendency of forces toward a state of equilibrium or rest. From political philosophy it was endowed with an individualistic view of the relation of man to man, as the "natural state." The natural, and therefore, by a refinement of thought, the right relations between men were such as arose out of their private, individual contracts with one another.

In economic activity, the acquisitive desires were seen to be the primary motivating force, but since the pursuit of such desires led to the performance of services

for others, their effects could be interpreted as socially desirable. The organization of economic activity was viewed as a competitive struggle between individuals for wealth in its manifold forms. And such restrictions as limited this competition between individuals was viewed as "unnatural" and undesirable, and prejudicial to the wealth (and therefore to the welfare) of all.

Economic science in the hands of Adam Smith, and even more in the hands of economists of the succeeding generation, became primarily a technique for explaining the relative values for which economic goods exchange, and the uses and rewards of the various agents which lend their assistance in the productive process. The analysis ran in terms of a mechanical analogy, and consisted in seeking the logical outcome of the forces of individual self-interest operating through a competitive organization of economic activity based upon private property. Its precept for public policy was the expediency, for promoting public and private wealth, of imposing as little control upon the pursuits of individuals as was consistent with the preservation of property and personal or national safety. Under the sheltering protection of the Utilitarian philosophy, political economy acquired its niche, along with politics, law, and ethics, in a consistent and harmonious scheme of thought, designed not only to explain social phenomena, but as well to lay down the fundamental principles of a desirable social policy. It was in this comprehensive mechanistic scheme of late eighteenth-

century thought that the theoretical defences were perfected for the predilection which persists to the present day against governmental interference with the "natural" processes of individual activity.

If in this scheme of thought wherein political economy took its appointed place the element of scientific explanation seems somewhat overborne by that of philosophical speculation, that is only to say that the terms in which mankind shall explain its own activity must of necessity be forged out of ideas and points of view not themselves easily reducible to scientific form.

Such, briefly and inadequately expressed, was the type of thought and method of analysis which early political economy passed on as an intellectual heritage to later generations. Since this early beginning, each generation has seen the rise of new economists who have undertaken to revise, modify, or reshape the body of economic laws or doctrines which have been passed down to them, in order to frame a more adequate explanation of the relations of cause and effect in the operation of economic processes. Such revision has been due partly to the changing external facts to be explained, partly to changing ideas of the nature of human motivation, partly to changing scientific concepts and general habits of thought, partly to the imponderable influence of the economist's own general outlook and point of view. But however much subsequent generations have pared away from or added to their early heritage, one may discern an unbroken line of descent

which includes all those who have to some considerable degree remained loyal to the early nineteenth-century idea of the scope and method of economic science. Building up gradually and laboriously a scheme of analysis and explanation of economic phenomena, this group in the outcome must be recognized as having exerted a vast intellectual and practical influence during the past century. Out of their concepts and methods and doctrines has grown much of the current common sense upon economic matters, or, if one wishes to emphasize the reverse aspect, their thought may perhaps be said to have rationalized the common sense of a highly individualistic century.

It is beyond our present purpose to attempt any summary of the varied developments of economic speculation during the nineteenth century. In the main, those who have come to be regarded as representative of the "classical school" were engaged in developing or modifying the views of Ricardo upon the subjects of prices and the distribution of income. Variations of emphasis and treatment are less important than the maintenance of a striking uniformity in general concepts and scientific method. For it was persistently assumed that a science, inexact, indeed, but authentic, could be built by the method of logical deduction mainly upon a premise of the competitive pursuit of individual self-interest. Variations of emphasis have been too numerous to recount in detail. But, in spite of sporadic protests, Ricardian political economy for the half-century before

1870 held its ground as the best available explanation of economic phenomena and as the best available guide to public policy on economic matters.

The latter part of the century was, however, too fertile with new developments in science, industry, social life, and general thought to permit the continuance of such delightful unanimity. The devastating theory of evolution cast doubt upon the validity of natural laws conceived in terms of a tendency of forces to achieve a state of rest. Historical research emphasized the evanescence of human institutions and consequently the ephemerality of economic laws postulated upon the fixity of the existing competitive system. The persistence of poverty and distress in England in the face of the enormously increased productivity of the industrial system belied the beneficence of individualistic enterprise, and placed the ethics of utilitarianism under critical scrutiny. The growing concentration of economic power seemed to be encroaching upon the free contractual relations which were posited by political economy. And finally, a new psychological interest sent economists burrowing into the shadowy places of the human mind as the ultimate hiding-place of economic causes.

Such a combination of circumstances—and the list is by no means complete—injected into economic science so many controversial elements, that two decades of quarrelsome conflict sufficed to transform a well-established and practical body of doctrines and precepts into



a congeries of highly speculative and mutually conflicting theories. Out of this dismal morass the science was rescued in England by Alfred Marshall, but not to the satisfaction of all. In the United States and on the Continent, while his work was highly influential, his Messianic quality was less widely accepted. Consequently, while controversy has been less prevalent and less virulent, it has not been stilled. In the nature of the case, when data of growing complexity must be interpreted and when the canons of scientific knowledge are so flexible as in the past generation, no complete meeting of minds upon questions of economic generalizations could be expected.

One must not fail to notice that at no time has the dogma of economic science failed to elicit dissent from some quarter. During the period in which it placed its blessing upon the head of unregulated competition, it was the target for reformers, whether radical or reactionary, of all sorts who were not impressed by the beneficence of the existing framework of society. From Tory defenders of ancient privilege to socialistic dreamers, the anvil chorus proceeded. The most direct and most powerful challenge came from Karl Marx's system of "scientific socialism," and for a generation economists were concerned with laying the ghost of this distressing intruder, who disconcerted them with an equally effective armory of logical dialectic, but with different premises. Robert Owen, Carlyle, Ruskin, trade-unionists, all humanitarians who refused to be-